Tragedy and Hope: A History of the World in Our Time', by Carroll Quigley

TRAGEDY AND HOPE Chapters I-IV
by Dr. Carroll Quigley
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Back cover

TRAGEDY AND HOPE is a lively, informed and always readable view of our not quite One World of today, seen in historical perspective. Quigley has already shown his command of the kind of historical perspective seen in the a world like that of Toynbee and Spengler; but unlike them he does not so much concern himself with projections from a distant past to a distant future as he does with what must interest us all much more closely - our own future and that of our immediate descendants. He uses the insights, but in full awareness of the limitations of our modern social sciences, and especially those of economics, sociology, and psychology. Not all readers will agree with what he sees ahead of us in the near future, nor with what he thinks we should do about it. But all will find this provocative and sometimes provoking book a stimulus to profitable reflection.
David Brinton

Inside cover

TRAGEDY AND HOPE shows the years 1895-1950 as a period of transition from the world dominated by Europe in the nineteenth century to the world of three blocs in the twentieth century. With clarity, perspective and cumulative impact, Professor Quigley examines the nature of that transition through two world wars and a worldwide economic depression. As an interpretative historian, he tries to show

each event in the full complexity of its historical context. The result is a unique work, notable in several ways. It gives a picture of the world in terms of the influence of different cultures and outlooks upon each other; it shows, more completely than in any similar work, the influence of science and technology on human life; and it explains, with unprecedented clarity, how the intricate financial and commercial patterns of the West prior to 1914 influenced the development of today's world.

Carroll Quigley, professor of history at the Foreign Service School of Georgetown University, formerly taught at Princeton and at Harvard. He has done research in the archives of France, Italy and England, and is the author of the widely praised "Evolution of Civilizations." A member of the editorial board of the monthly Current History, he is a frequent lecturer and consultant for public and semi-public agencies. He is a member of the American Association for the Advancement of Science, the American Anthropological Association, and the American Economic Association, as well as various historical associations. He has been lecturer on Russian history at the Industrial College of the Armed Forces since 1951 and on Africa at the Brookings Institution since 1961, and has lectured at many other other places including the U.S. Naval Weapons Laboratory, the Foreign Service Institute of the State Department, and the Naval College at Norfolk, Virginia. In 1958, he was a consultant to the Congressional Select Committee which set up the present national space agency. He was collaborator in history to the Smithsonian Institution after 1957, in connection with the establishment of its new Museum of History and Technology. In the summer of 1964 he went to the Navy Post-Graduate School, Monterey, California, as a consultant to project Seabed, which tried to visualize what American weapons systems would be like in twelve years.

CHAPTER I: INTRODUCTION: WESTERN CIVILIZATION IN ITS WORLD SETTING

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Each civilization is born in some inexplicable fashion and, after a slow start, enters a period of vigorous expansion, increasing its size and power, both internally and at the expense of its neighbors, until gradually a crisis of organization appears... It becomes stabilized and eventually stagnant. After a Golden Age of peace and prosperity, internal crises again arise. At this point, there appears for the first time, a moral and physical weakness.

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The passage from the Age of Expansion to the Age of Conflict is the most complex, most interesting and most critical of all periods of the life cycle of a civilization. It is marked by four chief characteristics: it is a period:

a) of declining rate of expansion;
b) of growing tensions and class conflicts;
c) of increasingly frequent and violent imperialist wars;
d) of growing irrationality.

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When we consider the untold numbers of other societies, simpler than civilizations, which Western Civilization has destroyed or is now destroying, the full frightening power of Western Civilization becomes obvious.

This shift from an Age of Conflict to an Age of Expansion is marked by a resumption of the investment of capital and the accumulation of capital on a large scale.

In the new Western civilization, a small number of men, equipped and trained to fight, received dues and services from the overwhelming

majority of men who were expected to till the soil. From this inequitable but effective defensive system emerged an inequitable distribution of political power and, in turn, an inequitable distribution of the social economic income. This, in time, resulted in an accumulation of capital, which, by giving rise to demand for luxury goods of remote origin, began to shift the whole economic emphasis of the society from its earlier organization in self-sufficient agrarian units to commercial interchange, economic specialization, and, a bourgeois class.

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At the end of the first period of expansion of Western Civilization covering the years 970-1270, the organization of society was becoming a petrified collection of vested interests and entered the Age of Conflict from 1270-1420.

In the new Age of Expansion, frequently called the period of commercial capitalism from 1440 to 1680, the real impetus to economic expansion came from efforts to obtain profits by the interchange of goods, especially semi-luxury or luxury goods, over long distances. In time, profits were sought by imposing restrictions on the production or interchange of goods rather than by encouraging these activities.

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The social organization of this third Age of Expansion from 1770-1929 following upon the second Age of Conflict of 1690-1815 might be called "industrial capitalism." In the last of the nineteenth century, it began to become a structure of vested interests to which we might give the name "monopoly capitalism."

We shall undoubtedly get a Universal Empire in which the United States will rule most of the Western Civilization. This will be followed, as in other civilizations, by a period of decay and ultimately, as the civilizations grows weaker, by invasions and the total destruction of Western culture.

EUROPE'S SHIFT TO THE TWENTIETH CENTURY

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The belief in the innate goodness of man had its roots in the eighteenth century when it appeared to many that man was born good and free but was everywhere distorted, corrupted, and enslaved by bad institutions and conventions. As Rousseau said, "Man is born free yet everywhere he is in chains."

Obviously, if man is is innately good and needs but to be freed from social restrictions, he is capable of tremendous achievements in this world of time, and does not need to postpone his hopes of personal salvation into eternity.

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To the nineteenth century mind, evil, or sin, was a negative conception. It merely indicated a lack or, at most, a distortion of good. Any idea of sin or evil as a malignant force opposed to good, and capable of existing by its own nature, was completely lacking in the typical nineteenth century mind. The only evil was frustration and the only sin, repression.

Just as the negative idea of the nature of evil flowed from the belief that human nature was good, so the idea of liberalism flowed from the belief that society was bad. For, if society was bad,the state,which was the organized coercive power of society, was doubly bad, and if man was good, he should be freed, above all, from the coercive power of the state.

"No government in business" was commonly called "laissez faire" and would have left society with little power beyond that required to prevent the strong from physically oppressing the weak.

This strange, and unexamined, belief held that there really existed, in the long run, a "community of interests" between the

members of a society. It maintained that, in the long run, what was good for one was bad for all. It believed that there did exist a possible social pattern in which each member would be secure, free and prosperous.

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Capitalism was an economic system in which the motivating force was the desire for private profit as determined in a price system with the seeking of aggrandization of profits for each individual.

Nationalism served to bind persons of the same nationality together into a tight, emotionally satisfying, unit. On the other side, it served to divide persons of different nationalities into antagonistic groups, often to the injury of their real mutual political, economic or cultural advantages.

The event which destroyed the pretty dream world of 1919-1929 were the stock market crash, the world depression, the world financial crisis.

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The twentieth century came to believe that human nature is, if not innately bad, at least capable of being very evil. Left to himself, man falls very easily to the level of the jungle or even lower and this result can be prevent only by the coercive power of society. Along with this change from good men and bad society to bad men and good society has appeared a reaction from optimism to pessimism. The horrors of Hitler's concentration camps and Stalin's slave-labor units are chiefly responsible for this change.

CHAPTER II: WESTERN CIVILIZATION TO 1914

WESTERN CIVILIZATION TO 1914

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The financial capitalist sought profits from the manipulation of claims on money; and the monopoly capitalist sought profits from manipulation of the market to make the market price and the amount sold such that his profits would be maximized.

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Karl Marx,about 1850, formed his ideas of an inevitable class struggle in which the groups of owners would become fewer and fewer and richer and richer while the mass of workers became poorer and poorer but more and more numerous.

Mass production required less labor. But mass production required mass consumption.

EUROPEAN ECONOMIC DEVELOPMENT

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Investments in railroads, steel mills and so on could not be financed from the profits and private fortunes of individual proprietors. New instruments for financing industry came into existence in the form of limited-liability corporations and investment banks. These were soon in a position to control the chief parts of the industrial system since they provided the capital to it. This gave rise to financial capitalism.

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Great industrial units, working together either directly or through cartels and trade associations, were in a position to exploit the majority of the people. The result was a great economic crisis which soon developed into a struggle for control of the state - the minority hoping to use the state to defend their privileged position, the majority hoping to use the state to curtail the power and privileges of the minority.

Capitalism, because it seems profits as its primary goal, is never primarily seeking to achieve prosperity, high production, high

consumption, political power, patriotic improvement, or moral uplift.
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Goods moved from low-price areas to high-price areas and money moved from high-price areas to low-price areas because goods were more valuable where prices were high and money was more valuable where prices were low.

Thus, clearly, money and goods are not the same thing but are, on the contrary, exactly opposite things. Most confusion in economic thinking arises from failure to recognize this fact. Goods are wealth which you have, while money is a claim on wealth which you do not have. Thus goods are an asset; money is a debt. If goods are wealth; money is non-wealth, or negative wealth, or even anti-wealth.
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In time, some merchants turned their attention from exchange of goods to the monetary side of the exchange. They became concerned with the lending of money to merchants to finance their ships and their activities, advancing money for both, at high interest rates, secured by claims on ships or goods as collateral for repayment and made it possible for people to concentrate on one portion of the process and, by maximizing that portion, to jeopardize the rest.
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Three parts of the system, production, transfer, and consumption of goods were concrete and clearly visible so that almost anyone could grasp them simply examining them while the operations of banking and finance were concealed, scattered, and abstract so that they appeared to many to be difficult. To add to this, bankers themselves did everything they could to make their activities more secret and more esoteric. Their activities were reflected in mysterious marks in ledgers which were never opened to the curious outsider.

Changes of prices, whether inflationary or deflationary, have been major forces in history for the last six centuries at least.
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Hundreds of years ago, bankers began to specialize, with richer and more influential ones associated increasingly with foreign trade and foreign-exchange transactions. Since these were richer and more cosmopolitan and increasingly concerned with questions of political significance, such as stability and debasement of currencies, war and peace, dynastic marriages, and worldwide trading monopolies, they became financiers and financial advisers of governments. Moreover, they were always obsessed with the stability of monetary exchanges and used their power and influence to do two things:
1) to get all money and debts expressed in terms of strictly limited commodity - ultimately gold; and
2) to get all monetary matters out of the control of governments and political authority, on the ground that they would be handled better by private banking interests in terms of such a stable value of gold.
INDUSTRIAL CAPITALISM, 1770-1850
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Britain's victories had many causes such as its ability to control the sea and its ability to present itself to the world as the defender of the freedoms and rights of small nations and of diverse social and religious groups. Also, financially, England had discovered the secret of credit and economically, it had embarked on the Industrial Revolution.

Credit had been known to the Italians and Netherlanders long before it became one of the instruments of English world supremacy. Nevertheless, the founding of the Bank of England by William Paterson and his friends in 1694 is one of the great dates in world history. For generations, men had sought to avoid the one drawback of gold, its heaviness, by using pieces of paper to represent specific pieces of gold. Today, we call such pieces of paper gold certificates which

entitles its bearer to exchange it for its piece ofgold on demand, but in view of the convenience of paper, only a small fraction of certificate holders ever did make such demands. It early became clear that gold need be held on hand only to the amount needed to cover the fraction of certificates likely to be presented for payment; accordingly, the rest of the gold could be used for business purposes, or, what amounts to the same thing, a volume of certificates could be issued greater than the volume of gold reserved for payment of demands against them. such an excess volume of paper claims against reserves we now call bank notes.

In effect, this creation of paper claims greater than the reserves available means that bankers were creating money out of nothing. The same thing could be done in another way, not by note-issuing banks but by deposit banks. Deposit bankers discovered that orders and checks drawn against deposits by depositors and given to third persons were often not cashed by the latter but were deposited to their own accounts. Thus there were no actual movements of funds, and payments were made simply by bookkeeping transactions on the accounts. Accordingly, it was necessary for the banker to keep on hand in actual money (gold, certificates and notes) no more than the fraction of deposits likely to be drawn upon and cashed; the rest could be used for loans and if these loans were made by creating a deposit for the borrower, who in turn would draw checks upon it rather than withdraw it in money, such "created deposits" or loans could also be covered adequately by retaining reserves to only a fraction of their value. Such created deposits also were a creation of money out of nothing, although bankers usually refused to express their actions, either note issuing or deposit lending, in these terms. William Paterson, on obtaining the charter of the Bank of England, said "the Bank hath benefit of interest on all moneys it creates out of nothing." This is generally admitted today.

This organizational structure for creating means of payment out of nothing, which we call credit, was not invented by England but was developed by her to become one of her chief weapons in the victory over Napoleon in 1815. The emperor, could not see money in any but concrete terms, and was convinced that his efforts to fight wars on the basis of "sound money" by avoiding the creation of credit, would ultimately win him a victory by bankrupting England. He was wrong although the lesson has had to be relearned by modern financiers in the twentieth century.

FINANCIAL CAPITALISM 1850-1931
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The third stage of capitalism is of such overwhelming significance in the history of the twentieth century, and its ramifications and influences have been so subterranean and even occult, that we may be excused if we devote considerate attention to this organization and methods.

Essentially, what it did was to take the old disorganized and localized methods of handling money and credit and organize them into an integrated system, on an international basis, which worked with incredible and well-oiled facility for many decades. The center of that system was in London, with major offshoots in New York and Paris and it has left, as its greatest achievement, an integrated banking system and a heavily capitalized - if now largely obsolescent - framework of heavy industry, reflected in railroads, steel mills, coal mines and electrical utilities.

This system had its center in London for four chief reasons. First was the great volume of savings in England. Second was England's oligarchic social structure which provided a very inequitable distribution of incomes with large surpluses coming to the control of

a small, energetic upper class. Third was that this upper class was aristocratic but not noble, quite willing to recruit both money and ability from lower levels and even from outside the country, welcoming American heiresses and central-European Jews to its ranks almost as willingly as it welcomed monied, able and conformist recruits from the lower classes of Englishmen. Fourth (and by no means last) in significance was the skill in financial manipulation, especially on the international scene, which the small group of merchant bankers of London had acquired.

In time, they brought into their financial network the provincial banking centers as well as insurance companies to form all of these into a single financial system on an international scale which manipulated the quantity and flow of money so that they were able to influence, if not control, governments on one side and industries on the other.

The men who did this, looking backward toward the period of dynastic monarchy in which they had their own roots, aspired to establish dynasties of international bankers and were at least as successful at this as were many of the dynastic political rulers. The greatest of these dynasties, of course, were the descendants of Meyer Amschel Rothschild (1743-1812) whose male descendants for at least two generations, generally married first cousins or even nieces. Rothschild's five sons, established at branches in Vienna, London, Naples and Paris as well as Frankfort, cooperated together in ways which other international banking dynasties copied but rarely excelled.

In concentrating, as we must, on the financial or economic activities of international bankers, we must not totally ignore their other attributes. They were cosmopolitan rather than nationalistic; they were a constant, if weakening, influence for peace, a pattern established in 1830 and 1840 when the Rothschilds threw their whole tremendous influence successfully against European wars.

They were usually highly civilized, cultured gentlemen, patrons of education and of the arts, so that today, colleges, professorships, opera companies, symphonies, libraries, and museum collections still reflect their munificence. For these purposes they set a pattern of endowed foundations which still surround us today.

The names of some of these banking families are familiar to all of us and should be more so. They include Baring, Lazard, Erlanger, Warburg, Schroder, Seligman, Speyers, Mirabaud, Mallet, Fould and above all Rothschild and Morgan. Even after these banking families became fully involved in domestic industry by the emergence of financial capitalism, they remained different from ordinary bankers in distinctive ways:

1) they were cosmopolitan and international;
2) they were close to governments and were particularly concerned with questions of government debts, including foreign government debts, even in areas which seemed, at first glance, poor risks, like Egypt, Persia, Ottoman Turkey, Imperial China and Latin America;
3) their interests were almost exclusively in bonds and very rarely in goods since they admired "liquidity";
4) they were fanatical devotees of deflation (which they called "sound" money from its close association with high interest rates and a high value of money) and of the gold standard;
5) they were almost equally devoted to secrecy and the secret use of financial influence in political life. These bankers came to be called "international bankers" and were known as "merchant bankers" in England, "private bankers" in France and "investment bankers" in the United States.

Everywhere, they were sharply distinguishable from other, more

obvious, kinds of banks, such as savings banks or commercial banks.

One of their less obvious characteristics was that they remained as private unincorporated firms offering no shares, no reports, and usually no advertising to the public until modern inheritance taxes made it essential to surround such family wealth with the immortality of corporate status for tax-avoidance purposes. This persistence as private firms continued because it ensured the maximum of anonymity and secrecy to persons of tremendous public power who dreaded public knowledge of their activities as an evil almost as great as inflation.

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Firms like Morgan, like others of the international banking fraternity, constantly operated through corporations and governments, yet remained itself an obscure private partnership.

The influence of financial capitalism and the international bankers who created it was exercised both on business and on governments, but could have neither if it had not been able to persuade both these to accept two "axioms" of its own ideology. Both of these were based on the assumption that politicians were too weak and too subject to temporary public pressures to be trusted with control of the money system; accordingly, the soundness of money must be protected in two ways: by basing the value of money on gold and by allowing bankers to control the money supply. To do this it was necessary to conceal, even mislead, both governments and people about the nature of money and its methods of operation.

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Since it is quite impossible to understand the history of the twentieth century without some understanding of the role played by money in domestic affairs and in foreign affairs, as well as the role played by bankers in economic life and in political life, we must take a least a glance at each of these four subjects:

DOMESTIC FINANCIAL PRACTICES

In each country, the supply of money took the form of an inverted pyramid or cone balanced on its point. In the point was the supply of gold and its equivalent certificates; on the intermediate levels was a much larger supply of notes; and at the top, with an open and expandable upper surface, was an even greater supply of deposits. Each level used the levels below it as its reserves and these lower levels had smaller quantities of money, they were "sounder."

Notes were issued by "banks of emission" or "banks of issue" and were secured by reserves of gold or certificates held in some central reserve. The fraction held in reserve depended upon banking regulations or statute law. Such banks, even central banks, were private institutions, owned by shareholders who profited by their operations.

Deposits on the upper level of the pyramid were called by this name, with typical bankers' ambiguity, in spite of the fact that they consisted of two utterly different kinds of relationships:

1) "lodged deposits" which were real claims left by a depositor in a bank on which a depositor might receive interest; and

2) "created deposits" which were claims created by the bank out of nothing as loans from the bank to "depositors" who had to pay interest on them.

Both form part of the money supply. Lodged deposits as a form of savings are deflationary while created deposits, being an addition to the money supply, are inflationary.

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The volume of deposits banks can create, like the amount of notes they can issue, depends upon the volume of reserves available to pay whatever fraction of checks are cashed rather than deposited. In the United States, deposits were traditionally limited to ten times reserves notes and gold. In Britain it was usually nearer twenty times

such reserves. In most countries, the central bank was surrounded closely by the almost invisible private investment banking firms. These, like the planet Mercury, could hardly be seen in the dazzle emitted by the central bank, which they, in fact, often dominated. Yet a lost observer could hardly fail to notice the close private associations between these private, international bankers and the central bank itself. In France, in 1936, the Board of the Bank of France was still dominated by the names of the families who had originally set it up in 1800.

In England, a somewhat similar situation existed. In a secondary ring are the "joint stock banks." Outside this secondary ring are the savings banks, insurance firms, and trust companies.

In France and England the private bankers exercised their powers through the central bank and had much more influence on the government and foreign policy and less on industry. In the United States, much industry was financed by investment bankers directly and the power of these both on industry and government was very great.

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The various parts of the pyramid of money were but loosely related to each other. Much of this looseness arose from the fact that the controls were compulsive in a deflationary direction and were only permissive in an inflationary direction. This last point can be seen in the fact that the supply of gold could be decreased but could hardly be increased. If an ounce of gold was added to the point of the pyramid, it could permit an increase in deposits equivalent to $2067 on the uppermost level. If such an ounce of gold were withdrawn from a fully expanded pyramid of money, this would compel a reduction of deposits by at least this amount, probably by a refusal to renew loans.

Throughout modern history, the influence of the gold standard has been deflationary, because the natural output of gold each year, except in extraordinary times, has not kept pace with the increase in the output of goods. Only new supplies of gold or the development of new kinds of money have saved our civilization over the last couple of centuries. The three great periods of war ended with an extreme deflationary crisis (1819, 1873, 1921) as the influential Money Power persuaded governments to re-establish a deflationary monetary unit with a high gold content.

The obsession of the Money Power with deflation was partly a result of their concern with money rather than with goods but was also founded on other factors, one of which was paradoxical. The paradox arose from the fact that the basic economic conditions of the nineteenth century were deflationary, with a monetary system based on gold and an industrial system pouring out increasing supplies of goods but in spite of falling prices, the interest rate tended to fall rather than rise. Moreover, merchant banking continued to emphasize bonds rather than equity securities (stocks), to favor government issues rather than private offerings.

Another paradox of banking practice arose from the fact that bankers, who loved deflation, often acted in an inflationary fashion from their eagerness to lend money at interest. Since they make money out of loans, they are eager to increase the amounts of bank credit on loan. But this is inflationary. The conflict between the deflationary ideas and inflationary practices of bankers had profound repercussions on business. The bankers made loans to business so that the volume of money increased faster than the increase of goods. The result was inflation. When this became clearly noticeable, the bankers would flee to notes or specie by curtailing credit and raising discount rates. This was beneficial to the bankers in the short run (since it allowed them to foreclose on collateral for loans) but it could be disastrous

to them in the long run (by forcing the value of the collateral below the amount of the loans it secured). But such bankers' deflation was destructive to business and industry in the short run as well as the long run.

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The resulting fluctuation in the supply of money, chiefly deposits, was a prominent aspect of the "business cycle." The quantity of money could be changed by changing reserve requirements or discount (interest) rates. Central banks can usually vary the amount of money in circulation by "open market operations" or by influencing the discount rates of lesser banks. In open market operations, a central bank buys or sells government bonds in the open market. If it buys, it releases money into the economic system; it if sells it reduces the amount of money in the community. If the Federal Reserve Bank buys, it pays for these by checks which are soon deposited in a bank. It thus increases this bank's reserves with the Federal Reserve Bank. Since banks are permitted to issue loans for several times the value of their reserves with the FED, such a transaction permits them to issue loans for a much larger sum.

Central banks can also change the quantity of money by raising the discount rate which forces the lesser banks to raise their discount rates; such a raise in interest rates tends to reduce the demand for credit and thus the amount of deposits (money). Lowering the discount rate permits an opposite result.

It is noted that the control of the central bank over the credit policies of local banks are permissive in one direction and compulsive in the other. They can compel these local banks to curtail credit and can only permit them to increase credit. This means that they have control powers against inflation and not deflation - a reflection of the old banking idea that inflation was bad and deflation was good.

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The powers of governments over the quantity of money are:

a) control over a central bank;
b) control over public taxation;
c) control over public spending;

Since most central banks have been (technically) private institutions, this control is frequently based on custom rather than on law.

Taxation tends to reduce the amount of money in a community and is usually a deflationary force. Government spending is usually an inflationary force.

On the whole, in the period up to 1931, bankers, especially the Money Power controlled by the international investment bankers, were able to dominate both business and government. They could dominate business because investment bankers had the ability to supply or refuse to supply such capital. Thus Rothschild interests came to dominate many of the railroads of Europe, while Morgan dominated at least 26,000 miles of American railroads. Such bankers took seats on the boards of directors of industrial firms, as they had already done on commercial banks, savings banks, insurance firms, and finance companies. From these lesser institutions, they funneled capital to enterprises which yielded control and away from those who resisted. These firms were controlled through interlocking directorships, holding companies, and lesser banks.

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As early as 1909,Walter Rathenau said, "Three hundred men, all of whom know one another, direct the economic destiny of Europe and choose their successors from among themselves."

The power of investment bankers over governments rests on the need of governments to issue short-term treasury bills as well as

long-term government bonds. Just as businessmen go to commercial banks for current capital advances, so a government has to go to merchant bankers to tide over the shallow places caused by irregular tax receipts. As experts in government bonds, the international bankers provided advice to government officials and, on many occasions, placed their own members in official posts. This was so widely accepted even today, that in 1961 a Republican investment banker became Secretary of the Treasury in a Democratic administration in Washington without significant comment from any direction.

Naturally, the influence of bankers over governments during the age of financial capitalism (roughly 1850-1931) was not something about which anyone talked about freely, but it has been admitted freely enough by those on the inside, especially in England. In 1842, Gladstone, chancellor of the Exchequer, declared "The hinge of the whole situation was this: the government itself was not to be the substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned." On Sept. 26, 1921, the Financial Times wrote, "Half a dozen men at the top of the Big Five Banks could upset the whole fabric of government finance by refraining from renewing Treasury Bills." In 1924, Sir Drummond Fraser, vice-president of the Institute of Bankers, stated, "The Governor of the Bank of England must be the autocrat who dictates the terms upon which alone the Government can obtain borrowed money."

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In addition to their power over government based on government financing and personal influence, bankers could steer governments in ways they wished them to go by other pressures. Since most government officials felt ignorant of finance, they sought advice from bankers whom they considered experts in the field. The history of the last century shows that the advice given to governments by bankers, like the advice they gave to industrialists, was consistently good for bankers but was often disastrous for governments, businessmen and the people generally.

Such advice could be enforced if necessary by manipulation of exchanges, gold flows, discount rates, and even levels of business activity. Thus Morgan dominated Cleveland's second administration by gold withdrawals, and in 1936-13 French foreign exchange manipulators paralyzed the Popular Front governments. The powers of these international bankers reached their peak in 1919-1931 when Montagu Norman and J.P. Morgan dominated not only the financial world but international relations and other matters as well. On Nov. 11, 1927, the Wall Street Journal called Mr. Norman "the currency dictator of Europe." This was admitted by Mr. Norman who said, "I hold the hegemony of the world."

The conflict of interests between bankers and industrialists has resulted in the subordination of the bankers (after 1931) to the latter by the adoption of "unorthodox financial policies" - that is, financial policies not in accordance with the short-run interests of the bankers.

THE UNITED STATES TO 1917

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The civil service reform began in the federal government with the Pendleton Bill of 1883. As a result, the government was controlled with varying degrees of completeness by the forces of investment banking and heavy industry from 1884 to 1933. Popularly known as "Society," or the "400," they lived a life of dazzling splendor.

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The structure of financial control created by the tycoons of "Big Banking" and "Big Business" in the period 1880-1933 was of extraordinary complexity, one business fief being built upon another, both being allied with semi-independent associates, the whole rearing

upward into two pinnacles of economic and financial power, of which one, centered in New York, was headed by J.P. Morgan and Company, and the other, in Ohio, was headed by the Rockefeller family. When these two cooperated, as they generally did, they could influence the economic life of the country to a large degree and could almost control its political life, at least on the federal level.

The influence of these business leaders was so great that the Morgan and Rockefeller groups acting together, or even Morgan acting alone, could have wrecked the economic system of the country merely by throwing securities on the stock market for sale, and having precipitated a stock market panic, could then have bought back the securities they had sold but at a lower price. Naturally, they were not so foolish as to do this, although Morgan came very close to it in precipitating the "panic of 1907," but they did not hesitate to wreck individual corporations, at the expense of holders of common stock, by driving them to bankruptcy. In this way, Morgan wrecked the New York, New Haven and Hartford railroad before 1914 and William Rockefeller wrecked the Chicago, Milwaukee, St. Paul and Pacific Railroad before 1925.

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The discovery by financial capitalists that they made money out of issuing and selling securities rather than out of production, distribution and consumption of goods accordingly led them to the point where they discovered that the exploiting of an operating company by excessive issuance of securities or the issuance of bonds rather than equity securities not only was profitable to them but made it possible for them to increase their profits by bankruptcy of the firm, providing fees and commission of reorganization as well as the opportunity to issue new securities.

When the business interests pushed through the first installment of the civil service reform in 1881, they expected to control both political parties equally. Some intended to contribute to both and to allow an alternation of the two parties in public office in order to conceal their own influence, inhibit any exhibition of independence by politicians, and allow the electorate to believe that they were exercising their own free choice.

The inability of the investment bankers to control the Democratic Party Convention of 1896 was a result of the agrarian discontent of the period 1868-1896. This discontent was based very largely on the monetary tactics of the banking oligarchy. The bankers were wedded to the gold standard and at the end of the Civil War, persuaded the Grant administration to curb the postwar inflation and go back on the gold standard (crash of 1873 and resumption of specie payment in 1875).

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This gave the bankers a control of the supply of money which they did not hesitate to use for their own purposes. The bankers' affection for low prices was not shared by farmers, since each time prices of farm products went down, the burden of farmers' debts became greater. As farmers could not reduce their costs or modify their production plans, the result was a systematic exploitation of the agrarian sectors of the community by the financial and industrial sectors. This exploitation took the form of high industrial prices and discriminatory railroad rates, high interest charges, low farm prices and very low level of farm services.

Unable to resist by economic weapons, the farmers turned to political relief. They tried to work on the state political level through local legislation (so-called Granger Laws) and set up third-party movements (like the Greenback Party of 1878 or the Populist Party in 1892). By 1896, the capture of the Democratic Party by the forces of discontent under William Jennings Bryant who was determined

to obtain higher prices by increasing the supply of money on a bimetallic rather than a gold basis, presented the electorate with an election on a social and economic issue for the first time in a generation. Though the forces of high finance were in a state of near panic, by a mighty effort involving very large-scale spending they were successful in electing McKinley.

Though the plutocracy were unable to control the Democratic Party as they controlled the Republican Party, they did not cease their efforts to control both and in 1904 and 1924, Morgan was able to sit back with a feeling of satisfaction to watch presidential elections in which the candidates of both parties were in his sphere of influence.

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The agrarian discontent, the growth of monopolies, the oppression of labor, and the excesses of Wall Street financiers made the country very restless between 1890-1900. All this could have been alleviated merely by increasing the supply of money sufficiently to raise prices somewhat, but the financiers were determined to defend the gold standard no matter what happened.

In looking for some issue to distract public discontent from domestic issues, what better solution than a crisis in foreign affairs? Cleveland had stumbled upon this alternative in 1895 when he stirred up controversy with England over Venezuela. The great opportunity came with the Cuban revolt against Spain in 1895. While the "yellow press" roused public opinion, Henry Cabot Lodge and Theodore Roosevelt plotted how they could best get the United States into the fracas. They got the excuse they needed when the American battleship Maine was sunk by a mysterious explosion in Havana Harbor in 1898. In two months, the United States declared war on Spain to fight for Cuban independence. The resulting victory revealed the United States as a world naval power, established it as an imperialist power with possession of Puerto Rico, Guam, and the Philippines.

America's entrance upon the stage as a world power continued with the annexation of Hawaii in 1898, the intervention in the Boxer uprising in 1900, the seizure of the Panama canal in 1903, the diplomatic intervention in the Russo-Japanese war in 1905, the military occupation of Nicaragua in 1912, the military intervention in Mexico in 1916.

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As an example of the more idealistic impulse we might mention the creation of various Carnegie foundations to work for universal peace. As an example of the more practical point of view, we might mention the founding of "The New Republic," a liberal weekly paper, by an agent of Morgan financed with Whitney money (1914).

The combined forces of the liberal East and the agrarian West were able to capture the Presidency under Woodrow Wilson in 1912. Wilson roused a good deal of popular enthusiasm with his talk of "New Freedom" and the rights of the underdog, but his program amounted to little more than an amateur attempt to establish on a federal basis those reforms which agrarian and labor discontent had been seeking on a state basis for many years. Wilson was by no means a radical and there was a good deal of unconscious hypocrisy in many of his resounding public speeches. His political and administrative reforms were a good deal more effective than his economic or social reforms. The establishment of an income tax and the Federal Reserve System justified the support which Progressives had given to Wilson. Wilson did much to extend equality of opportunity to wider groups of American people.

CHAPTER III: THE RUSSIAN EMPIRE TO 1917

Page 88

The abolition of serfdom made it necessary for the landed nobility to cease to regard the peasants as private property. Peter the Great (1689-1725) and Catherine the Great (1762-1796) were supporters of westernization and reform. Paul I (1796-1801) was reactionary. Alexander I (1801-1825) and Alexander II (1855-1881) were reformers while Nicholas I (1825-1855) and Nicholas II (1855-1881) were reactionaries. By 1864, serfdom had been abolished, and a fairly modern system of law, of justice, and of education had been established; local government had been somewhat modernized; a fairly good financial and fiscal system had been established; and an army based on universal military service (but lacking in equipment) had been created. On the other hand, the autocracy continued in the hands of weak men and the freed serfs had no adequate lands.

Page 93

The first Russian railroad opened in 1838 but growth was slow until 1857. At that time, there were only 663 miles of railroads, but this figure went up over tenfold by 1871, doubled again by 1881 with 14,000 miles, reached 37,000 by 1901 and 46,000 by 1915.

Page 94

In 1900, Russia had 48% of the total world production of petroleum products. The State Bank was made a bank of issue in 1897 and was required by law to redeem its notes in gold, thus placing Russia on the international gold standard.

Page 97

In 1902, a cartel created by a dozen iron and steel firms handled almost three-fourths of all Russian sales. It was controlled by four foreign banking groups.

Page 100

Until 1910, Stolypin continued his efforts to combine oppression with reform, especially agrarian reform. Rural credit banks were established; various measures were taken to place larger amounts of land in the hands of the peasants; restrictions of immigration of peasants, especially to Siberia, were removed; participation in local government was opened to lower social classes previously excluded; education, especially technical education, was made more accessible; and certain provisions for social insurance were enacted into law. He was assassinated in the presence of the Tsar in 1911.

The fourth duma (1912-1916) was elected by universal suffrage.

CHAPTER IV: THE BUFFER FRINGE
THE NEAR EAST TO 1914

Page 111

The Ottoman Empire was divided into 21 governments and subdivided into seventy vilayets, each under a pasha. The supreme ruler in Constantinople was not only sultan (head of the empire) but was also caliph (defender of the Muslim creed).

Page 121

The Great Powers showed mild approval of the Baghdad Railway until about 1900. Then, for more than ten years, Russia, Britain and France showed violent disapproval and did all they could the obstruct the project. They described the Baghdad Railway as the emerging wedge of German imperialist aggression seeking to weaken and destroy the Ottoman Empire and the stakes of the other powers in the area.

Page 122

The Germans were not only favorably inclined toward Turkey; their conduct seems to have been completely fair in regard the administration of the railway itself. At a time when the American and

other railways were practicing wholesale discrimination between customers, the Germans had the same rates and same treatment for all, including Germans and non-Germans. They worked to make the railroad efficient and profitable although their income from it was guaranteed by the Turkish government. In consequence, the Turkish payments to the railroad steadily declined, and the government was able to share in its profits to the extent of almost three million francs in 1914. Moreover, the Germans did not seek to monopolize control of the railroad, offering to share equally with France and England and eventually with the other Powers. France accepted this offer in 1899, but Britain continued to refuse and placed every obstacle in the path of the project.

When the Ottoman government sought to raise their customs duties from 11% to 14% in order to continue construction, Britain prevented this. In order to carry on the project, the Germans sold their railroad interests in the Balkans and gave the Ottoman building subsidy of $275,000 a kilometer. In striking contrast, the Russians demanded arrears of 57 million francs under the Treaty of 1878. The French, in spite of investments in Turkey, refused to allow Baghdad Railway securities to be handled on the Paris Stock Exchange.

Page 123

In 1903, Britain made an agreement for a joint German, French, and British control of the railroad. Within three weeks this agreement was repudiated because of newspaper protests against it. When the Turkish government tried to borrow, it was summarily rebuffed in Paris and London, but obtained the sum unhesitatingly in Berlin. The growth of German prestige and the decline in favor of the Western Powers at the sultan's court is not surprising and goes far to explain the Turkish intervention on the side of the Central powers in the war of 1914-1919.

Britain withdrew her opposition to the Baghdad Railway in return for promises that:

1) it would not be extended to the Persian Gulf;
2) British capitalists would be given a monopoly on the navigation of the Euphrates and Tigris rivers and exclusive control over their irrigation projects;
3) 2 British subjects would be given seats on the Board of directors;
4) Britain would have exclusive control over commercial activities in Kuwait, the only good port on the upper Persian Gulf;
5) a monopoly over the oil resources given to a new corporation: Royal Dutch Shell Company in which British held half interest, the Germans and French a quarter interest each;

THE BRITISH IMPERIAL CRISIS TO 1926

Page 127

In England, the landed class obtained control of the bar and the bench and were, thus, in a position to judge all disputes about real property in their favor. Control of the courts and of the Parliament made it possible for this ruling group to override the rights of peasants in land, to eject them from the land, to enclose the open fields of the medieval system, to deprive the cultivators of their manorial rights and thus reduce them to the condition of landless rural laborers or tenants.

Page 130

Until 1870, there was no professorships of Fine Arts at Oxford, but in that year, thanks to a bequest,John Ruskin was named to such a chair. He hit Oxford like an earthquake, not so much because he talked about fine arts but because he talked about the empire and England's downtrodden masses as moral issues. Until the end of the nineteenth century, the poverty-stricken masses in the cities lived in want, ignorance and crime much like described by Charles Dickens. Ruskin spoke to the Oxford undergraduates as members of the privileged ruling

class. He told them that they were the possessors of a magnificent tradition of education, beauty, rule of law, freedom, decency, and self-discipline but that this tradition could not be saved and did not deserve to be saved, unless it could be extended to the lower classes and to the non-English masses throughout the world. If not extended to these classes, the minority upper-class would be submerged and the tradition lost.

Ruskin's message had a sensational impact. His inaugural lecture was copied out in longhand by one undergraduate, Cecil Rhodes. Rhodes feverishly exploited the diamond and gold fields of South Africa, rose to be prime minister of Cape Colony, contributed money to political parties, controlled parliamentary seats both in England and South Africa.

With financial support from Lord Rothschild, he was able to monopolize the diamond mines as De Beers Mines and Gold Fields. In the mid 1890s, Rhodes had a personal income of a least a million pounds (then five million dollars) a year which was spent so freely for his mysterious purposes that he was usually overdrawn on his account. These purposes centered on his desire to federate the English-speaking peoples and to bring all the habitable portions of the world under their control.

Page 131

Among Ruskin's most devoted disciples at Oxford were a group of intimate friends who devoted the rest of their lives to carrying out his ideas. They were remarkably successful in these aims.

In 1891, Rhodes organized a secret society with members in a "Circle of Initiates" and an outer circle known as the "Association of Helpers" later organized as the Round Table organization.

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In 1909-1913, they organized semi-secret groups know as Round Table Groups in the chief British dependencies and the United States. In 1919, they founded the Royal Institute of International Affairs. Similar Institutes of International Affairs were established in the chief British dominions and the United States where it is known as the Council on Foreign Relations. After 1925, the Institute of Pacific Relations was set up in twelve Pacific area countries.

Page 133

They were constantly harping on the lessons to be learned from the failure of the American Revolution and the success of the Canadian federation of 1867 and hoped to federate the various parts of the empire and then confederate the whole with the United Kingdom

EGYPT AND THE SUDAN TO 1922

Disraeli's purchase, with Rothschild money, of 176,602 shares of Suez Canal stock for #3,680,000 from the Khedive of Egypt in 1875 was motivated by concern for communications with India just as the acquisition of the Cape of Good Hope in 1814 had resulted from the same concern.

Page 135

As a result of complex and secret negotiations in which Lord Rosebery was the chief figure, Britain kept Uganda, Rhodes was made a privy councilor, Rosebery replaced his father-in-law, Lord Rothschild, in Rhodes secret group and was made a trustee under Rhodes' next and last will.

Page 137

By 1895, the Transvaal Republic presented an acute problem. All political control was in the hands of a rural, backward, Bible-reading, racist minority of Boers while all economic wealth was in the hands of a violent, aggressive majority of foreigners, (Utlanders) most of whom lived in Johannesburg. The Utlanders, who were twice as numerous and owned two thirds of the land and nine-tenths of the

wealth of the country, were prevented from participating in political life or from becoming citizens (except after 14 years residence) and were irritated by President Paul Kruger's intriguing to obtain some kind of German intervention and protection.

At this point, Rhodes made his plans to overthrow Kruger's government by an uprising in Johannesburg, financed by himself and led by his brother Frank, followed by an invasion led by Frank Jameson from Rhodesia. Flora Shaw used The Times to prepare public opinion in England while others negotiated for the official support necessary.

When the revolt fizzled, Jameson raided anyway and was easily captured by the Boers. The public officials involved denounced the plot, loudly proclaimed their surprise at the event, and were able to whitewash most of the participants in the subsequent parliamentary inquiry. A telegram from the German Kaiser to Kruger congratulating him on his success "in preserving the independence of his country," was built up by The Times into an example of brazen German interference in British affairs, and almost eclipsed Jameson's aggression.

Rhodes was stopped only temporarily. For almost two years, he and his friends stayed quiet waiting for the storm to blow over. Then they began to act again. Propaganda, most of it true about the plight of the Utlanders flooded England from Flora Shaw. Milner was made British High Commissioner to South Africa; his friend Brett worked his way into the confidence of the monarchy to become its chief political advisor. Milner made provocative British troop movements on the Boer frontiers in spite of the vigorous protests of his commanding general in South Africa, who had to be removed; and finally, war was precipitated when Smuts drew up an ultimatum insisting that the British troop movements cease and when this was rejected by Milner.

Page 138

The Boer War (1899-1902) was one of the most important events in British imperial history. The ability of 40,000 Boer farmers to hold off ten times as many British for three years, inflicting a series of defeats on them over that period, destroyed faith in British power. Although the Boer republics were defeated and annexed in 1902, Britain's confidence was so shaken that it made a treaty with Japan providing that if either became engaged in war with two enemies in the Far East, the other would come to the rescue. This treaty allowed Japan to attack Russia in 1904.

Page 138

Milner's group, known as "Milner's Kindergarten" reorganized the government. By 1914, the Smuts government passed a law excluding natives from most semi-skilled or skilled work or any high-paying positions.

Page 139

By the Land Act of 1913, 7% was reserved for purchases by natives and the other 93% by whites. The wages of natives were about one tenth of those of whites.

Page 141

These natives lived on inadequate and eroded reserves or in horrible urban slums and were drastically restricted in movements, residence, or economic opportunities and had almost no political or even civil rights. By 1950 in Johannesburg, 90,000 Africans were crowded into 600 acres of shacks with no sanitation with almost no running water and denied all opportunity except for animal survival and reproduction.

Page 142

In 1908, the Milner Round Table group worked a scheme to reserve the tropical portions of Africa north of the Zambezi river for natives under such attractive conditions that the blacks south of that river

would be enticed to migrate northward. Its policy would be to found a Negro dominion in which Blacks could own land, enter professions, and stand on a footing of equality with Whites. Although this project has not been achieved, it provides the key to Britain's native policies from 1917 onward.

Page 143

In 1903, when Milner took over the Boer states, he tried to follow the policy that native could vote. This was blocked by the Kindergarten because they considered reconciliation with the Boers to be more urgent.

In South Africa, the three native protectorates of Swaziland, Bechuanaland, and Basutoland were retained by the imperial authorities as areas where native rights were paramount and where tribal forms of living could be maintained at least partially.

MAKING THE COMMONWEALTH 1910-1926

Page 144

Back in London, they founded the Round Table and met in conclaves presided over by Milner to decide the fate of the empire. Curtis and others were sent around the world to organize Round Table groups in the chief British dependencies to give them, including India and Ireland, their complete independence.

Page 146

The creation of the Round Table groups was so secretive that, even today, many close students of the subject are not aware of its significance.

Page 147

Curtis said, "The task of preparing for freedom the races which cannot as yet govern themselves is the supreme duty of those who can. Personally, I regard this challenge to the long unquestioned claim of the white man to dominate the world as inevitable and wholesome, especially to ourselves. Our whole race has outgrown the merely national state and will pass either to a Commonwealth of Nations or else to an empire of slaves. And the issue of these agonies rests with us."

EAST AFRICA 1910-1931

Page 149

Publicity for their views on civilizing the natives and training them for eventual self-government received wide dissemination.

Page 150

By 1950 Kenya had discontented and detribalized blacks working for low wages on lands owned by whites. It had about two million blacks and only 3,400 whites in 1910. Forty years later, it had about 4 million blacks and only 30,000 whites. The healthful highlands were reserved for white ownership as early as 1908. The native reserves had five times as much land although they had 150 times as many people.

The whites tried to increase the pressure on natives to work on white farms rather than to seek to make a living on their own lands within the reserves, by forcing them to pay taxes in cash, by curtailing the size or quality of the reserves, by restricting improvements in native agricultural techniques and by personal and political pressure and compulsion.

The real crux of the controversy before the Mau Mau uprising of 1948-1955 was the problem of self-government; Pointing to South Africa, the settlers in Kenya demanded self-rule which would allow them to enforce restrictions on non-whites.

Page 151

From this controversy came a compromise which gave Kenya a Legislative Council containing representatives of the imperial government, the white settlers, the Indians, the Arabs, and a white missionary to represent the blacks. Most were nominated rather than elected but by 1949, only the official and Negro members were

nominated.
Page 152
As a result of the 1923 continued encroachment of white settlers on native preserves, the 1930 Native Land Trust Ordinance guaranteed native reserves but these reserves remained inadequate.
Page 153
Efforts to extend the use of native courts, councils and to train natives for an administrative service were met with growing suspicion based on the conviction that the whites were hypocrites who taught a religion that they did not obey, were traitors to Christ's teachings, and were using these to control the natives and to betray their interests under cover of religious ideas which the whites themselves did not observe in practice.
INDIA TO 1926
Although the East India Company was a commercial firm, it had to intervene again and again to restore order, replacing one nominal ruler by another and even taking over the government of those areas where it was more immediately concerned and to divert to their own pockets some of the fabulous wealth they saw flowing by. Areas under rule expanded steadily until by 1858 they covered three-fifths of the country.
Page 154
In 1857-1858, a sudden, violent insurrection of native forces, known as the Great Mutiny, resulted in the end of the Mogul empire and of the East India Company, the British government taking over their political activities.
Page 157
Numerous legislative enactments sought to improve the conditions but were counterbalanced... by the growing burden of peasant debt at onerous terms and at high interest rates. Although slavery was abolished in 1843, many of the poor were reduced to peonage by contracting debts at unfair terms and binding themselves and their heirs to work for their creditors until the debt was paid. Such a debt could never be paid, in many cases, because the rate at which it was reduced was left to the creditor and could rarely be questioned by the illiterate debtor.
Page 158
In spite of India's poverty, there was a considerable volume of savings arising chiefly from the inequitable distribution of income to the landlord class and to the moneylenders (if these two groups can be separated in this way).
Page 161
Hinduism was influenced by Christianity and Islam so that the revived Hinduism was really a synthesis of these three religions. Played down was the old and basic Hindu idea of Karma where each would reappeared again and again in a different physical form and in a different social status, each difference being a reward or punishment for the soul's conduct in at it's previous appearance. There was no real hope of escape from this cycle, except by a gradual improvement through a long series of successive appearances to the ultimate goal of complete obliteration of personality (Nirvana) by ultimate mergence in the soul of the universe (Brahma). This release (moksha) from the endless cycle of existence could be achieved only by the suppression of all desire, of all individuality and of all will to live.
IRELAND TO 1939
Page 173
The Cromwellian conquest of Ireland in the seventeenth century had transferred much Irish land, as plunder of war, to absentee English landlords. In consequence, high rents, insecure tenure, lack of improvements and legalized economic exploitation, supported by

English judges and English soldiers, gave rise to violent agrarian unrest and rural atrocities against English lives and properties.
THE FAR EAST TO WORLD WAR I
THE COLLAPSE OF CINA TO 1920
Page 176
The destruction of traditional Chinese culture under the impact of Western Civilization was considerably later than the similar destruction of Indian culture by Europeans
The upper-most group derived its income as tribute and taxes from its possession of military and political power the middle group derived its incomes from sources such as interest on loans, rents from lands and the profits from commercial enterprises. Although the peasants were clearly an exploited group, this exploitation was impersonal and traditional and thus more easily borne.
Page 179
Only in the late nineteenth and early twentieth century did peasants in China come to regard their positions as so hopeless that violence became preferable to diligence or conformity. This change arose from the fact that the impact of Western culture on China did, in fact, make a peasant's position economically hopeless.

Page 180
Chinese society was too weak to defend itself against the West. When it tried to do so, as in the Opium Wars of 1840-1861 or in the Boxer uprising of 1900, such Chinese resistance to European penetration was crushed by armaments of the Western Powers and all kinds of concessions to these Powers were imposed on China.
Until 1841, Canton was the only port allowed for foreign imports and opium was illegal. As a consequence of Chinese destruction of illegal Indian opium and the commercial exactions of Cantonese authorities, Britain imposed on China the treaties of Nanking (1842) and of Tientsin (1858). These forced China to cede Hong Kong to Britain and to open sixteen ports to foreign trade, to impose a uniform import tariff of no more than 5%, to pay an indemnity of about $100 million, to permit foreign legations in Peking, to allow a British official to act as head of the Chinese customs service, and to legalize the import of opium. China lost Burma to Britain, Indochina to France. Also Formosa and the Pescadores to Japan, Macao to Portugal, Kiaochow to Germany, Liaotung (including Port Arthur) to Russia, France took Kwangchowan and Britain took Kowloon and Weihaiwei. Various Powers imposed on China a system of extraterritorial courts under which foreigners in judicial cases could not be tried in Chinese courts or under Chinese law.

TRAGEDY AND HOPE Chapters V-VIII
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CHAPTER V: THE FIRST WORLD WAR
THE GROWTH OF INTERNATIONAL TENSIONS 1871-1914

Page 249

Four chief reasons have been given for the intervention of the United States in World War I.
1) to secure "freedom of the seas" from German submarine attacks;
2)British propaganda;
3) a conspiracy by international bankers and munitions manufacturers either to protect their loans to the Entente Powers or their wartime profits from sales to these Powers;
4) Balance of Power principles to prevent Great Britain from being defeated by Germany
Page 250

The fact that German submarines were acting in retaliation for the illegal British blockades of the continent of Europe and British violations of international law and neutral rights on the high seas.

Britain was close to defeat in April 1917 and on that basis the United States entered the war. The unconscious assumption by American leaders that an Entente victory was inevitable was at the bottom of their failure to enforce the same rules of neutrality and international law against Britain as against Germany. They constantly assumed that British violations of these rules could be compensated with monetary damages while German violations of these rules must be resisted by force if necessary. Since they could not admit this unconscious assumption or publicly defend the legitimate basis of international power politics on which it rested, they finally went to war on an excuse which was legally weak, "the assertion of a right to protect belligerent ships on which Americans saw fit to travel and the treatment of armed belligerent merchantmen as peaceful vessels. Both assumptions were contrary to reason and to settled law and no other professed neutral advanced them."

The Germans at first tried to use the established rules of international law regarding destruction of merchant vessels. This proved so dangerous because the British instructions to merchant ships to attack submarines. American protests reached a peak when the Lusitania was sunk in 1915. The Lusitania was a British merchant vessel constructed as an auxiliary cruiser carrying a cargo of 2,400 cases of rifle cartridges and 1250 cases of shrapnel with orders to attack German submarines whenever possible. The incompetence of the acting captain contributed to the heavy loss of life as did also a mysterious second explosion after the German torpedo struck. The captain was on course he had orders to avoid; he was running at reduced speed, he had an inexperienced crew; the portholes had been left open; the lifeboats had not been swung out; and no lifeboat drills had been held.
Page 251

The propaganda agencies of the Entente Powers made full use of the occasion. The Times of London announced that 80% were citizens of the US (actually 15.6%); the British manufactured and distributed a medal which they pretended had been awarded to the submarine crew by the German government; a French paper published a picture of the crowds in Berlin at the outbreak of war in 1914 as a picture of Germans "rejoicing" at the news of the sinking of the Lusitania.

The US protested violently against the submarine warfare while brushing aside German arguments based on the British blockade. It was so irreconcilable in these protests that Germany sent Wilson a note which promised that "in the future merchant vessels within and without the war zone shall not be sunk without warning and without safeguarding human lives unless these ships try to escape or offer resistance. In return, the German government hoped that the US would put pressure on Britain to follow the established rules of international law in regard to blockade and freedom of the sea. Wilson refused to do so. It became clear to the Germans that they would be starved into defeat unless they could defeat Britain first by

unrestricted submarine warfare. Since they were aware this would probably bring the US into the war against them, they made another effort to negotiate peace before resorting to it. It was rejected by the Entente Powers on Dec. 27 and unrestricted submarine attacks were resumed. Wilson broke off diplomatic relations and the Congress declared war on April 3, 1917.

Page 252

Britain was unwilling to accept any peace which would leave Germany supreme on the continent or in a position to resume the commercial, naval, and colonial rivalry which had existed before 1914.

Page 253

The Vatican, working through Cardinal Pacelli (later Pope Pius XII) sought a negotiated peace.

On Oct 5, a German note to Wilson asked for an armistice based on the basis of the Fourteen Points which promised the end of secret diplomacy, freedom of the seas; freedom of commerce; disarmament; a fair settlement of colonial claims, with the interests of the native peoples receiving equal weight with the titles of the Imperialist Powers; the evacuation of Russia, the evacuation and restoration of Belgium, the evacuation of France and the restoration of her Alsace-Lorraine as in 1870.

Page 254

The Entente Supreme War Council refused to accept the Fourteen Points as the basis for peace until Colonel House threatened that the US would make a separate peace with Germany.

Page 255

Wilson had clearly promised that the peace treaty would be negotiated and based on the Fourteen Points but the Treaty of Versailles was imposed without negotiation and the Fourteen Points fared very poorly in its provisions. The subsequent claim of the German militarists that the German Army was never defeated but was "stabbed in the back" by the home front through a combination of international Catholics, international Jews, and international Socialists have no merit whatever.

On all fronts, almost 13 million men in the various armed forces died and the war destroyed over $400 billion in property at a time when the value of every object in France and Belgium was not worth over $75 billion.

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In July 1914, the military men were confident that a decision would be reached in six months. This belief was supported by the financial experts who, while greatly underestimating the cost of fighting, were confident financial resources would be exhausted in six months. By financial resources, they meant "gold reserves." These were clearly limited; all the Great Powers were on the gold standard. However each country suspended the gold standard at the outbreak of war. This removed the automatic limitation on the supply of paper money. The each country proceeded to pay for the war by borrowing from the banks. The banks created the money which they lent my merely giving the government a deposit of any size against which the government could draw checks. The banks were no longer limited in the amount of credit they could create because they no longer had to pay out gold for checks on demand. This the creation of money in the form of credit by the banks was limited only by the demands of its borrowers. Naturally, as governments borrowed to pay for their needs, private businesses borrowed to be able to fill the government's orders. The percentage of outstanding bank notes covered by gold reserves steadily fell and the percentage of bank credit covered by either gold or bank notes fell even further.

Naturally, when the supply of money was increased in this fashion

faster than the supply of goods, prices rose because a larger supply of money was competing for a smaller supply of goods. People received money for making capital goods, consumer goods and munitions but they could spend their money only to buy consumer goods. The problem of public debt became steadily worse because governments were financing such a large part of their activities by bank credit. Public debts rose by 1000 percent.

Page 259

Governments began to regulate imports and exports to ensure that necessary materials stayed in the country and did not go to enemy states. This led to the British blockade of Europe.

Page 251

The results of the blockade were devastating. Continued for nine months after the armistice, it caused the deaths of 800,000 persons, reparations took 108,000 horses, 205,000 cattle, 426,000 sheep and 240,000 fowl.

Page 262

Countries engaged in a variety of activities designed to regulate the flow of information which involved censorship, propaganda and curtailment of civil liberties.

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The War Propaganda Bureau was able to control almost all information going to the American press.

The Censorship and Propaganda bureaus worked together. The former concealed all stories of Entente violations of the laws of war or of the rules of humanity while the Propaganda Bureau widely publicized the violations and crudities of the Central Powers. The German violation of Belgian neutrality was constantly bewailed,while nothing was said of the Entente violation of Greek neutrality. A great deal was made of the Austrian ultimatum to Serbia while the Russian mobilization which had precipitated the war was hardly mentioned. In the Central Powers a great deal was made of the Entente encirclement while nothing was said of the Kaiser's demands for "a place in the sun" of the High Command's refusal to renounce annexation of any part of Belgium.

Manufacture of outright lies by propaganda agencies was infrequent and the desired picture of the enemy was built up by a process of selection and distortion of evidence until, by 1918,many in the West regarded the Germans as bloodthirsty and sadistic militarists while the Germans regarded the Russians as "subhuman monsters." A great deal was made, especially by the British, of "atrocity" propaganda; stories of German mutilation of bodies, violation of women, cutting off a children's hands, desecration of churches, and crucifixions of Belgians were widely believed in the West by 1916. In 1917, Henry Carter is created a story that the Germans were cooking human bodies to extract glycerine and produced pictures to prove it. Again, photographs of mutilated bodies in a Russian anti-Semitic outrage in 1905 were circulated as pictures of Belgians in 1915. There were several reasons for the use of such atrocity stories:

a) to build up the fighting spirit of the mass army;
b) to stiffen civilian morale;
c) to encourage enlistments;
d) to increase subscriptions for war bonds;
e) to justify one's own breaches of international law;
f) to destroy the chances of negotiating peace or to justify a severe final peace;
g) to win the support of the neutrals.

The relative innocence and credulity of the average person who was not yet immunized to propaganda assaults through mediums of mass communication in 1914 made the use of such stories relatively effective. But the discovery in the period after 1919 that they had

been hoaxed gave rise to a skepticism toward all government communications which was especially noticeable in the Second World War.

CHAPTER VI: THE VERSAILLES SYSTEM AND THE RETURN TO NORMALCY 1919-1929
THE PEACE SETTLEMENTS 1919-1923
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The criticisms of the peace settlements was as ardent from the victors as from the vanquished aimed at the terms which were neither unfair nor ruthless. The causes of the discontent rested on the procedures which were used rather than the terms themselves. Above all, there was discontent at the contrast between the procedures which were used and the procedures which pretended to be used, as well as between the high-minded principles which were supposed to be applied and those which really were applied.

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When it became clear that they were to be imposed rather than negotiated, that the Fourteen Points had been lost in the confusion, that the terms had been reached by a process of secret negotiations from which the smaller nations had been excluded, there was a revulsion against the treaties. By 1929, most of the Western World had feelings of guilt and shame whenever they thought of the Versailles Treaty. In England, the same groups, often the same people, who had made the wartime propaganda and the peace settlements were loudest in their complaint that the latter had fallen far below the ideals of the former while all the while their real aims were to use power politics to the benefit of Britain.

The peace settlements were made by an organization which was chaotic and by a procedure which was fraudulent. None of this was deliberate. It arose rather from weakness and ignorance, from a failure to decide on what principles it would be based.

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Since the Germans had been promised the right to negotiate, it became clear that the terms could not first be made the subject of public compromise. Unfortunately, by the time the victorious Great Powers realized all this and decided to make the terms by secret negotiations among themselves, invitations had already been sent to all the victorious powers to come to the conference. As a solution to this embarrassing situation, the peace treaty was made on two levels. On one level, in the full glare of publicity, the Inter-Allied Conference became the Plenary Peace Conference and with the considerable fanfare, did nothing. ON the other level, the Great Powers worked out their peace terms in secret and when they were ready, imposed them simultaneously on the conference and on the Germans. This had not been intended. It was not clear to anyone just what was being done.

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At all these meetings, as at the Peace Conference itself, the political leaders were assisted by groups of experts and interested persons. Many of the experts were members associates of the international banking fraternity. In every case but one, where a committee of experts submitted a unanimous report, the Supreme Council accepted its recommendation. The one case where a report was not accepted was concerned with the Polish corridor, the same issue which led to the Second World War where the experts were much harsher on Germany than the final decision of the politicians.

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The German delegation offered to accept the disarmament sections and reparations if the Allies would withdraw any statement

that Germany had, alone, caused the war and would re-admit Germany to the world's markets.
Page 273
The Allies answer accused the Germans of sole guilt in causing the war and of inhuman practices during it. The Germans voted to sign if the articles on war guilt and war criminals could be struck from the treaty.. When the Allies refused these concessions, the Catholic Center Party voted 64-14 not to sign. The High Command of the German army ordered the Cabinet to sign. The Treaty of Versailles was signed by all the delegations except the Chinese in protest against the disposition of the prewar German concessions in Shantung.
Page 274
No progress was possible in Hungary without some solution of the agrarian question and the peasant discontent arising from monopolization of the land.
The French Ministry of Foreign Affairs (acting on behalf of France's greatest industrialist, Eugene Schneider) made a deal with the Hungarians that if they would sign the Treaty of Trianon and give Schneider control of the Hungarian state railways, the port of Budapest and the Hungarian General Credit Bank, France would eventually make Hungary one of the mainstays of its anti-German bloc in Eastern Europe and, at the proper time, obtain a drastic revision of the Treaty of Trianon. Paleologue received his reward from Schneider. He was made director of Schneider's personal holding company.
The Treaty of Sevres with Turkey was never signed because of the scandal caused by the Bolsheviki publication of the secret treaties regarding the Ottoman Empire, since these treaties contrasted so sharply with the expressed war aims of the Allies.
The British felt that richer prospects were to be obtained from the Turkish sultan. In particular, the French were prepared to support the claims of Standard Oil to such concessions while the British were prepared to support Royal Dutch Shell.
Page 277
The chief territorial disputes arose over the Polish corridor. France's Foch wanted to give all of East Prussia to Poland. Instead, the experts gave Poland access to the sea by severing East Prussia from the rest of Germany by creating a Polish corridor in the valley of the Vistula. However, the city of Danzig was clearly a German city and Lloyd George refused to give it to POland. Instead, it was a made a free city under the protection of the League of Nations.
Page 279
The most violent controversies arose in regard to the boundaries of Poland. Of these, only that with Germany was set by the Treaty of Versailles. The Poles refused to accept their other frontiers and by 1920 were at war with Lithuania over Vilna, with Russia over the eastern border, with the Ukrainians over Galaicia, and with Czechoslovakia over Teschen.
Page 280
These territorial disputes are of importance because they continued to lacerate relationships between neighboring states until well into the period of World War II. There were 1,000,000 Germans living in Poland, 550,000 in Hungary, 3,100,000 in Czechoslovakia, about 700,000 in Romania, 500,000 in Yugoslavia and 250,000 in Italy. To protect these minorities, the Allied Powers forced the new states to sign treaties grating a certain minimum political rights guaranteed by the League of Nations with no power to enforce observation of them.
Page 282
The French were torn between a desire to obtain as large a fraction as possible of Germany's payments and a desire to pile on Germany such a crushing burden of indebtedness that Germany would be

ruined beyond the point where it could threaten French security again.

A compromise originally suggested by John Foster Dulles was adopted by which Germany was forced to admit an unlimited, theoretical obligation to pay but was actually bound to pay for only a limited list of ten categories of obligations with pensions being larger than the preceding nine categories together. All reparations were wiped out in the financial debacle of 1931-1932.

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Britain had obtained all her chief ambitions. The German navy was at the bottom of Scapa Flow scuttled by the the Germans themselves; the German merchant fleet was scattered, captured, destroyed; the German colonial rivalry was ended and its areas occupied; the German commercial rivalry was crippled by the loss of its patents and industrial techniques, the destruction of all its commercial outlets and banking connections throughout the world, and the loss of its rapidly growing prewar markets. France on the other hand, had not obtained the one thing it wanted: security.

SECURITY 1919-1935

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The British governments of the Right began to follow a double policy: a public policy in which they spoke loudly in support of the foreign policy of the Left; and a secret policy in which they supported the foreign policy of the Right. Thus the stated policy was based on support of the League of Nations and of disarmament yet the real policy was quite different. While openly supporting Naval disarmament, Britain signed a secret agreement with France which blocked disarmament and signed an agreement with Germany which released her from her naval disarmament in 1935. After 1935, the contrast between the public and secret policy became so sharp that Lord Halifax called it "dyarchy."

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The British Right forced France to give away every advantage which it held over Germany. Germany was allowed to rearm in 1935, allowed to remilitarize the Rhineland in 1936. Finally, when all had been lost, public opinion forced the British government to abandon the Right's policy of appeasement and adopt the old French policy of resistance made on a poor issue (Poland 1939)

In France, as in Britain, there appeared a double policy. While France continued to talk of collective security, this was largely for public consumption for in fact she had no policy independent of Britain's policy of appeasement.

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War was not outlawed but merely subjected to certain procedural delays in making it, nor were peaceful procedures for settling international disputes made compulsory.

The Covenant had been worded by a skillful British lawyer, Civil Hurst, who filled it with loopholes cleverly concealed under a mass of impressive verbiage so that no state's freedom of action was vitally restricted.

Page 293

The Locarno Pacts, which were presented at the time throughout the English-speaking world as a sensational contribution to the peace and stability of Europe, really formed the background for the events of 1938 when Czechoslovakia was destroyed at Munich. When the guarantee of Locarno became due in 1936, Britain dishonored its agreement, the Rhine was remilitarized and the way was open for Germany to move eastward.

Poland protested violently at the refusal to guarantee her frontiers.

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France agreed to an extension of a multilateral agreement by which all countries could renounce the use of war as an instrument of national policy. The British government reserved certain areas, notably the Middle East, where it wished to be able to wage wars which could not be termed self-defence in a strict sense. The US also made reservation preserving its right to make war under the Monroe doctrine. The net result was that only aggressive war was to be renounced. The Kellogg-Briand Pact took one of the first steps toward destroying the legal distinction between war and peace, since the Powers, having renounced the use of war, began towage wars without declaring them as was done by Japan in China in 1937, by Italy in Spain in 1936 and by everyone in Korea in 1950.

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The outlawry of war was relatively meaningless without some sanctions that could compel the use of peaceful methods. Efforts in this direction were nullified by Britain.

DISARMAMENT 1919-1935

Page 303

Disarmament suggestions of the Soviet representative, Litvinoff, providing for immediate and complete disarmament of every country, was denounced by all. A substitute draft provided that the most heavily armed states would disarm by 50%, the less heavily-armed by 31% and the lightly armed by 25%, and the disarmed by 0%. That all tanks, planes, gas and heavy artillery be completely prohibited was also rejected without discussion and Litvinoff was beseeched to show a more "constructive spirit."

Page 305

Once it was recognized that security was in acute danger, financial considerations were ruthlessly subordinated to rearmament giving rise to an economic boom which showed clearly what might have been achieved earlier if financial consideration had been subordinated to the world's economic and social needs earlier; such action would have provided prosperity and rising standards of living which might have made rearming unnecessary.

JCT: How true.

REPARATIONS 1919-1932

Page 305

The preliminary payments were supposed to amount to a total of 20 billion marks by May 1921. Although the Entente Powers contended that only 8 billion had been paid,the whole matter was dropped when the Germans were presented with a total reparations bill of 132 billion marks. Under pressure, Germany accepted this bill and gave the victors bonds of indebtedness. Of these, 82 billion were set aside and forgotten. Germany was to pay the other 50 billion at 2.5 billion a year in interest and .5 billion a year to reduce the total debt.

JCT: It would only take 200 years to pay off a total of 500 billion in interest and 50 billion in principal.

Page 306

Germany could only pay if two conditions prevailed:

a) if it had a budgetary surplus and

b) if it sold abroad more than it bought abroad.

Since neither of these conditions generally existed in the period 1921-1931, Germany could not, in fact, pay reparations.

The failure to obtain a budgetary surplus was solely the responsibility of the government which refused to reduce its own expenditures or the standards of living off its own people or to tax them sufficiently heavily. The failure to obtain a favorable balance of trade because foreign creditors refused to allow a free flow of German goods into their own countries. Thus creditors were unwilling to accept payment in the only way in which payments could honestly be

made, that is, by accepting German goods and services.

JCT: Notice they wanted money and not the goods they could buy with it.

Germany could have paid in real goods and services if the creditors had been willing to accept such goods and services. The government made up the deficits by borrowing from the Reichsbank. The result was an acute inflation which was not injurious to the influential groups though it was generally ruinous to the middle classes and thus encouraged extremist elements.

Page 307

On Jan 9,1923, the Reparations Committee voted 3 to 1 (Britain opposing France, Belgium and Italy) that Germany was in default. Armed forces of the three nations began to occupy the Ruhr two days later. Germany declared a general strike in the area, ceased all reparation payments, and adopted a program of passive resistance, the government supporting the strikers by printing more paper money.

The area occupied was no more than 60 miles long by 30 miles wide but contained 10% of Germany's population and produced 80% of Germany's coal, iron and steel and 70% of her freight traffic. Almost 150,000 Germans were deported.

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A compromise was reached by which Germany accepted the Dawes Plan for reparations and the Ruhr was evacuated. The Dawes Plan was largely a J.P. Morgan production drawn up by an international committee of financial experts presided over by American banker Charles Dawes. Germany paid reparations for five years (1924-1929) and owed more at the end than it had owed at the beginning. It is worthy of note that this system was set up by the international bankers and that the subsequent lending of other people's money to Germany was very profitable to these bankers.

Using these American loans, Germany's industry was largely rebuilt to make it the second best in the world and to pay reparations.

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By these loans Germany's creditors were able to pay their war debts to England without sending goods or services. Foreign exchange went to Germany as loans, back to Italy, Belgium, France and Britain as reparations and finally back to the US as payments on war debts. In that period, Germany paid 10.5 billion marks in reparations but borrowed 18.6 billion abroad. Nothing was settled by all this but the international bankers sat in heaven under a rain of fees and commissions.

Page 310

The Dawes Plan was replaced by the Young Plan, named after the American Owen Young (a Morgan agent). A new private bank called the Bank for International Settlements was established in Switzerland. Owned by the chief central banks of the world and holding accounts for each of them, "a Central Bankers' Bank," it allowed payments to be made by merely shifting credits from one country's account to another on the books of the bank.

The Young Plan lasted for less than 18 months. The crash of the New York stock market in 1929 marked the end of the decade of reconstruction and ended the American loans to Germany.

Germans and others had begun a "flight from the mark" which created a great drain on the German gold reserve. As it dwindled, the volume of money and credit erected on that reserve had to be reduced by raising the interest rate. Prices fell because of the reduced money supply so that it became almost impossible for the banks to sell collateral to obtain funds to meet the growing demand for money.

JCT: Here he thinks loans are savings and has forgotten that he

had earlier told us it was new credit.
Page 311

On May 8, 1931, the largest Austrian bank, the Credit-Anstalt (a Rothschild institution) which controlled 70% of Austria's industry, announced a $140 million schillings loss. The true loss was over a billion and the bank had been insolvent for years. The Rothschilds and the Austrian government gave the Credit-Anstalt 160 million to cover the loss but public confidence had been destroyed. A run began on the bank. To meet this run,the Austrian banks called in all the funds they had in German banks. The German banks began to collapse. These latter began to call in all their funds in London. The London banks began to fall and gold flowed outward. On Sept.21, England was forced off the gold standard. The Reichsbank lost 200 million marks of its gold reserve in the first week of June and a billion in the second. The discount rate was raised step by step to 15% without stopping the loss of reserves but destroying the activities of the German industrial system almost completely.

Germany begged for relief on her reparations payments but her creditors were reluctant unless they obtained similar relief on the war-debt payments to the US. The President suggested a moratorium for one year if its debtors would extend the same privilege to their debtors.
Page 312

At the June 1932 Lausanne Conference, German reparations were cut to a total of only 3 billion marks but the agreement was never ratified because of the refusal of the US Congress to cut war debts equally drastically. In 1933, Hitler repudiated all reparations.

CHAPTER VII: FINANCE, COMMERCIAL POLICY, AND BUSINESS POLICY 1897-1947
REFLATION AND INFLATION 1897-1925
page 315

A real understanding of the economic history of twentieth century Europe is imperative to any understanding of the events of the period. Such an understanding will require a study of the history of finance.
Page 316

The outbreak of war in 1914 showed these financial capitalists in their worst, narrow in outlook, ignorant and selfish, while proclaiming, as usual, their total devotion to the social good. They generally agreed that war could not go on for more than six to ten months because of the "limited financial resources" of the belligerents (by which they meant gold reserves).This idea reveals the fundamental misunderstanding of the nature and of money on the part of the very persons who were reputed to be experts on the subject. Wars are not fought with gold or even with money but by proper organization of real resources.

The attitudes of bakers were revealed most clearly in England, where every move was dictated by efforts to protect their own position and to profit from it rather than by considerations of economic mobilization for war or the welfare of the British people. War found the British banking system insolvent in the sense that its funds, created by the banking system for profit and rented out to the economic system to permit it to operate, could not be covered by the existing volume of gold reserves or collateral which could be liquidated rapidly. Accordingly,the bankers secretly devised a scheme by which their obligations could be met by fiat money (so-called Treasury Notes), but as soon as the crisis was over, they ten insisted that the government must pay for the war without recourse to fiat money (which was always damned by the bankers as immoral) but by taxation and by borrowing at high interest rates from the bankers. The decision to use Treasury Notes to fulfill the bankers' liabilities was

made on July 25, 1915 by Sir John Bradbury. the first Treasury Notes were run off the presses at Waterloo and Sons on July 28th. It was announced that the Treasury Notes, instead of gold, would be used for bank payments. The discount rate was raised at the Bank of England from 3% to 10% to prevent inflation, a figure taken merely because the traditional rule of the bank stated that a 10% bank rate would draw gold out of the ground itself.

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At the outbreak of war, most of the belligerent countries suspended gold payments and accepted their bankers' advice that the proper way to pay for the war was by a combination of bank loans and taxation of consumption. The governments paid for the war by taxation, by fiat money, by borrowing from banks (which created credit for the purpose) and by borrowing from the people by selling them war bonds.

Each of these methods had a different effect upon the two consequences of the war: inflation and public debt.

a) Taxation gives no inflation and no debt.
b) Fiat money gives inflation and no debt.
c) Bank credit gives inflation and debt.
d) Sales of bonds give no inflation but give debt.

It would appear from this table that the best way to pay for the war would be by taxation and the worst way would be by bank credit. Probably the best way to finance war is a combination of the four methods.

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In the period 1914-1918, the various belligerents used a mixture of these four methods but it was a mixture dictated by expediency and false theories so that at the end of the war all countries found themselves with both public debts and inflation.

While the prices in most countries rose 200 to 300 percent and public debts rose 1000%, the financial leaders tried to keep up the pretense that the money was as valuable as it had ever been. For this reason, they did not openly abandon the gold standard. Instead, they suspended certain attributes of the gold standard. In most countries, payments in gold and export of gold were suspended but every effort was made to keep gold reserves up to a respectable percentage of notes. These attributes were achieved in some cases by deceptive methods. In Britain, the gold reserves against notes fell from 52% to 18% in the month of July 1914; then the situation was concealed, partly by moving assets of local banks into the Bank of England and using them as reserves for both, partly by issuing a new kind of notes (Currency Notes) which had no real reserve and little gold backing.

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As soon as the war was over, governments began to turn their attention to restoring the prewar financial system. Since the essential element was believed to be the gold standard, this movement was called "stabilization."

Productive capacity in both agriculture and industry had been increased by the artificial demand of the war period to a degree far beyond the ability of normal domestic demand to buy the products.

JCT: But not to eat them.

The backwards areas had increased their outputs of raw materials and food so greatly that the total could hardly have been sold.

JCT: But no eaten.

The result was as situation where all countries were eager to sell and reluctant to buy. The only sensible solution to this problem of excessive productive capacity would have been a substantial rise in domestic standards of living but this would have required a fundamental reapportionment of the national income so that claims to

this product of the excess capacity would go to those masses eager to consume, rather than continue to go to the minority desiring to save. Such reform was rejected by the ruling groups in both "advanced" and "backwards" countries so that this solution was reached only to a small degree in a relatively few countries (chiefly US and Germany in 1925-1929).

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The powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert, by secret agreements arrived at in frequent private meetings and conferences. The apex of the system was to be the Bank for International Settlements in Basle, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations. Each central bank sought to dominate its government by its ability to control Treasury loans, to manipulate foreign exchanges, to influence the level of economic activity in the country, and to influence cooperative politicians by subsequent economic rewards in the business world.

In each country, the power of the central bank rested largely on its control of credit and money supply. In the world as a whole the power of the central bankers rested very largely on their control of loans and the gold flows. They made agreements on all the major financial problems of the world, as well as on many of the economic and political problems, especially in reference to loans, payments, and the economic future of the chief areas of the globe.

The Bank of International Settlements, B.I.S. is generally regarded as the apex of the structure of financial capitalism whose remote origins go back to the creation of the Bank of England in 1694.

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It was set up to be the world cartel of every-growing national financial powers by assembling the nominal heads of these national financial centers.

The commander in Chief of the world system of banking control was Montagu Norman, Governor of the Bank of England, who was built up by the private bankers to a position where he was regarded as an oracle in all matters of government and business. In government, the power of the Bank of England was a considerable restriction on political action as early as 1819 but an effort to break this power by a modification of the bank's charter in1844 failed. In 1852, Gladstone, then chancellor of the Exchequer and later Prime Minister, declared, "The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned."

This power of the Bank of England was admitted in 1924 by Reginald McKenna, who had been Chancellor of the Exchequer, when he, as Chairman, told the stockholders of the Midland bank, "I am afraid the ordinary citizen will not like to be told that the banks can, and do, create money. And they who control the credit of a nation direct the policy if Governments and hold in the hollow of their hands the destiny of the people." In that same year, Sir Drummond Fraser, vice-president of the Institute of Bankers stated, "The Governor must be the autocrat who dictates the terms upon which alone the Government can obtain borrowed money." On Sep. 26, 1921,
Vincent Vickers, director of the bank, the Financial Times wrote, "Half a dozen meant the top of the Big Five Banks could upset the whole fabric of government by refraining from renewing Treasury Bills."

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Norman had no use for governments and feared democracy. Both of these seemed to him to be threats to private banking and thus to all that was proper and precious to human life. He viewed his life as a kind of cloak-and-dagger struggle with the forces of unsound money which were in league with anarchy and Communism. When he rebuilt the Bank of England,he constructed it as a fortress prepared to defend itself against any popular revolt. For much of his life, he rushed about the world under the assumed name of "Professor Skinner."

Norman had a devoted colleague in Benjamin Strong, the first governor of the Federal Reserve Bank of New York. Strong owed his career to the favor of the Morgan bank.

In the 1920s, they were determined to use the financial power of Britain and the US to force all the major countries of the world to go on the gold standard and to operate it through central banks free from all political control, with all questions of international finance to be settled by agreements by such central banks without interference from governments.

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It must not be felt that these heads of the world's chief central banks were themselves substantive powers in world finance. They were not. Rather, they were the technicians and agents of the dominant investment bankers of their own countries, who had raised them up and were perfectly capable of throwing them down. The substantive financial powers of the world were in the hands of investment bankers (also called "international" or "merchant" bankers) who remained largely behind the scenes in their own unincorporated private banks.

These formed system of international cooperation and national dominance which was more private,more powerful, and more secret tan that of their agents in the central banks. This dominance of investment bankers was based on their control over the flows of credit and investment funds in their own countries and throughout the world. They could dominate the financial and industrial systems of their own countries by their influence over the flow of current funds through bank loans,the discount rate,the rediscounting of commercial debts; they could dominate governments by their control over current government loans and the play of the international exchanges.

Almost all of this power was exercised by the personal influence and prestige men who had demonstrated their ability in the past to bring off successful financial coups, to keep their word, to remain cool in a crisis, and to share their winning opportunities with their associates.

In this system, the Rothschilds had been preeminent during much of the nineteenth century, but, at the end of that century, they were being replaced by J.P. Morgan in New York.

At the present stage, we must follow the efforts of the central bankers to compel the world to return to the gold standard of 1914.

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The problem of public debts arose from the fact that as money (credit) was created, it was usually made in such a way that it was not in the control of the state but was in the control of private financial institutions which demanded real wealth at some future date for the creation of claims on wealth in the present. The problem of public debt could have been met in one or more of several fashions:

a) by increasing the amount of real wealth...
b) by devaluation...
c) by repudiation...
d) by taxation...
e) by the issuance of fiat money and the payment of the debt by such money.

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Efforts to pay the public debt by fiat money would have made the inflation problem worse.

Orthodox theory rejected fiat money as solutions to the problem.

Page 332

In Britain, the currency notes which had been used to supplement bank notes were retired and credit was curtailed by raising the discount rate to panic level. The results were horrible. Business activity fell drastically and unemployment rose to well over a million and a half. The outcome was a great wave of strikes and industrial unrest.

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To maintain the gold reserve at all, it was necessary to keep the discount rate at a level so high (4.5% or more) that business activity was discouraged. As a result of this financial policy, Britain found herself faced with deflation and depression for the whole period of 1920-1923. The number of unemployed averaged about 1.75 millions for each of the thirteen years of 1921-1932 and reached 3 million in 1931.

Belgium, France and Italy, accepted orthodox financial ideas and tried to deflate in 1920-1921 but after the depression which resulted, they gave up the task.

Page 334

The Dawes Plan provided the gold reserves which served to protect Germany from the accepted principles of orthodox finance.

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Financial capitalism had little interest in goods at all, but was concerned entirely with claims on wealth - stocks, bonds, mortgages, insurance, proxies, interest rates, and such. It built railroads in order to sell securities, not to transport goods. Corporations were built upon corporations in the form of holding companies so that securities were issued in huge quantities bringing profitable fees and commissions to financial capitalists without any increase in economic production whatever. Indeed, these financial capitalists discovered that they could not only make killings out of the issuing of such securities,they could also make killings out of the bankruptcy of such corporations through the fees and commissions of reorganization. A very pleasant cycle of flotation, bankruptcy, flotation, bankruptcy began to be practiced by these financial capitalists. The more excessive the flotation, the greater the profits and the more imminent the bankruptcy. The more frequent the bankruptcy, the greater the profits of reorganization and the sooner the opportunity of another excessive flotation.

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The growth of financial capitalism made possible a centralization of world economic control and a use of this power for the direct benefit of financiers and the indirect injury of all other economic groups. Financial control could be exercised only imperfectly through credit control and interlocking directorates.

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The real key rested on the control of money flows which were held by investment bankers in 1900.

THE PERIOD OF DEFLATION, 1927-1936

Page 339

After 1929, deflation reached a degree which could be called acute. In the first part of this period (1921-1925), the dangerous economic implications of deflation were concealed by a structure of self-deception which pretended that a great period of economic progress would be inaugurated as soon as the task of stabilization had been accomplished. This psychological optimism was completely

unwarranted by the economic facts. After 1925, when deflation became more deep-rooted and economic conditions worsened, the danger from these conditions was concealed by a continuation of unwarranted optimism.
THE CRASH OF 1929
Page 342
When France stabilized the franc at a level at which it was devalued, the Bank of France sold francs in return for foreign exchange. The francs were created as credit in France thus giving an inflationary effect.
Page 343
The financial results of the stock market book in the U S was credit diverted from production to speculation and increasing amounts of funds being drained from the economic system into the stock market where they circulated around and around, building up prices of securities.
Page 344
Early in 1929, the board of governors of the Federal Reserve System became alarmed at the stock market speculations draining credit from industrial production. To curtail this, they called upon member banks to reduce their loans on stock collateral to reduce the amount of credit available for speculation. Instead, the available credit went more and more to speculation and decreasingly to productive business. Call money rates in New York which had reached 7% at the end of 1928 were at 13% by June 1929.
Page 346
To restore confidence among the wealthy (who were causing the panic) an effort was made to balance the budget by cutting public expenditures drastically. This, by reducing purchasing power, had injurious effects on business activity and increased unrest among the masses of the people.
Page 350
Washington left gold in 1933 voluntarily in order to follow an unorthodox financial program of inflation.
Page 351
The Thomas Amendment to the Agricultural Adjustment Act (1933) gave the president the power to devaluate the dollar up to 50%, to issue up to $3 billion fiat money,and to engage on an extensive program of public spending.
Page 352
The economies of the different countries were so intertwined with one another that any policy of self-interest on the part of one would be sure to injure others in the short run and the country in the long run. The international and domestic economic systems had developed to the point where the customary methods of thought and procedure in regard to them were obsolete.
page 353
As a result of the crisis, regardless of the nature of its primary impact, all countries began to pursue policies of economic nationalism. This spread rapidly as a result of imitation and retaliation.
Page 355
The Bank of France raised its discount rate from 2.5% to 6% in 1935 with depressing economic results. In this way, the strain on gold was relieved at the cost of increased depression. The Right discovered that it could veto any actions of the Left government merely by exporting capital from France.
Page 356
The franc passed through a series of depreciations and partial devaluations which benefited no one except the speculators and left France torn for years by industrial unrest and class struggles. The

government was subjected to systematic blackmail by the well-to-do of the country because of the ability of these persons to prevent social reform, public spending, arming, or any policy of decision by selling francs.

Page 357

The historical importance of the banker-engendered deflationary crisis of 1927-1940 can hardly be overestimated. It gave a blow to democracy and to the parliamentary system and thus became a chief cause of World War II. It so hampered the Powers which remained democratic by its orthodox economic theories that these were unable to rearm for defence. It gave rise to a conflict between the theorists of orthodox and unorthodox financial methods.

The bankers' formula for treating a depression was by clinging to the gold standard, by raising interest rates and seeking deflation, and by insisting on a reduction in public spending, a fiscal surplus or at least a balanced budget.

These ideas were rejected totally, on a point by point basis, by the unorthodox economists, (somewhat mistakenly called Keynesian). The bankers' formula sought to encourage economic recovery by "restoring confidence in the value of money," that is, their own confidence in what was the primary concern of bankers.

The unorthodox theorists sought to restore purchasing power by increasing, instead of reducing, the money supply and by placing it in the hands of potential consumers rather than in the banks or in the hands of investors.

page 358

The whole relationship of money and resources remained a puzzle to many and was still a subject of debate in the 1950s but at least a great victory had been won by man in his control of his own destiny when the myths of orthodox financial theory were finally challenged in the 1930s.

REFLATION AND INFLATION 1933-1947

Page 360

Except for Germany and Russia, most countries in the latter half of 1937 experienced sharp recession.

Page 361

As a result of the failure of most countries (excepting Germany and Russia) to achieve full utilization of resources, it was possible to devote increasing percentages of resources to armaments without suffering any decline in the standards of living.

Page 366

It was discovered by Germany in 1932, by Italy in 1934, by Japan in 1936 and by the United States in 1938 that deflation could be prevented by rearming.

Page 368

Britain made barter agreements with various countries, including one direct swap of rubber for wheat with the US.

Page 369

The period of reflation after 1933 was caused by increases in public spending on armaments. In most countries,the transition from reflation to inflation did not occur until after they had entered the war. Germany was the chief exception and possibly also Italy and Russia, since all of these were making fairly full utilization of their resources. In France and the other countries overrun by Germany, such full mobilization of resources was not achieved before they were defeated.

Page 370

The use of orthodox financing in the First World War had left a terrible burden of intergovernmental debts and ill-feeling...

Page 371

The Post Second World War economy was entirely different in character from that of the 1920s following the First World War. This was most notable in the absence of a post-war depression which was widely expected but which did not arrive because there was no effort to stabilize on a gold standard. The major difference was the eclipse of the bankers who have been largely reduced in status from the masters to the servants of the economic system. This has been brought about by the new concern with real economic factors instead of with financial counters, as previously. As part of this program, there has been a great reduction in the economic role of gold.

CHAPTER VIII: INTERNATIONAL SOCIALISM AND THE SOVIET CHALLENGE
Page 375

Industrialism, especially in its early years, brought with it social and economic conditions which were admittedly horrible. Human beings were brought together around factories to form great new cities which were sordid and unsanitary. In many cases, these persons were reduced to conditions of animality, which shock the imagination. Crowded together in want and disease, with no leisure and no security, completely dependent on weekly wage which was less than a pittance, they worked twelve to fifteen hours a day for six days in the week among dusty and dangerous machines with no protection against inevitable accidents, disease, or old age, and returned at night to crowded rooms without adequate food and lacking light, fresh air, heat, pure water, or sanitation. These conditions have been described for us in the writings of novelists such as Dickens in England, Hugo or Zola in France.
Page 376

The Socialist movement was a reaction against these deplorable conditions to the working masses. It has been customary to divide this movement into two parts at the year 1848, the publication of the Communist Manifesto of Karl Marx. This work began with the ominous sentence, "A specter is haunting Europe - the specter of Communism," and ended with the trumpet blast "Workers of the world, unite."

In general, the former division believed that man was innately good and that all coercive power was bad, with public authority the worst form of such coercive power. All the world's evils, according to the anarchists, arose because man's innate goodness was corrupted and distorted by coercive power. The remedy, they felt, was to destroy the state. The simplest way to destroy the state would be to assassinate the chief of the state to ignite a wholesale uprising of oppressed humanity.
Page 377

Syndicalism was a somewhat more realistic and later version of anarchism. It was equally determined to abolish all public authority. The state would be destroyed by a general strike and replaced by a flexible federation of free associations of workers.

The second group of radical social theorists wished to widen the power and scope of governments by giving them a dominant role in economic life. The group divided into0 two chief schools: The Socialists and the Communists.
Page 378

From Ricardo, Marx derived the theory that the value of economic goods was based on the amount of labor put into them.
Page 379

Marx built up a complicated theory which believed that all history is the history of class struggles.

The money which the bourgeoisie took from the proletariat in the economic system made it possible for them to dominate the political system, including the police and the army. From such exploitation, the bourgeoisie would become richer and richer and fewer and fewer in

numbers and acquire ownership of all property in the society while the proletariat would become poorer and poorer and more and more numerous and be driven closer and closer to desperation. Eventually, the latter would rise up and take over.

Page 381

In fact, what occurred was could be pictured as cooperative effort by unionized workers and monopolized industry to exploit unorganized consumers by raising prices higher and higher, quite contrary to the expectations of Marx. Where he had expected impoverishment of the masses and concentration of ownership with gradual elimination of the middle classes, there occurred instead rising standards of living, dispersal of ownership , a relative decrease in the numbers of laborers, and a great increase in the middle classes. Due to income and inheritance taxes, the rich became poorer and poorer, relatively speaking.

THE BOLSHEVIK REVOLUTION TO 1924

Page 385

The new government forced the abdication of the czar. The more radical Socialists had been released from prison or had been returned from exile (in some cases, such as Lenin, by German assistance)

JCT: And Rockefeller and Mackenzie King.

Page 386

Lenin campaigned to replace the Provisional Government with a system of Soviets and to adopt an immediate program of peace and land distribution. The Bolshevik group seized the centers of government in St. Petersburg and within 24 hours, issued a series of decrees which abolished the Provisional government, ordered the end of the war with Germany and the distribution of large land holdings to the peasants.

Page 387

By 1920 industrial production in general was about 13% of the 1913 figure. At the same time, paper money was printed so freely to pay for the costs of war, civil war, and the operation of the government that prices rose rapidly and the ruble became almost worthless.

The secret police (Cheka) systematically murdered all real or potential opponents.

Page 388

Various outsider Powers also intervened in the Russian chaos. An allied expeditionary force invaded northern Russia from Murmansk and Archangel, while a force of Japanese and another of Americans landed at Vladivostok and pushed westward for hundreds of miles. The British seized the oil fields of the Caspian region (late 1918) while the French occupied parts of the Ukraine about Odessa (March 1919).

By 1920, Russia was in complete confusion. Poland invaded Russia occupying much of the Ukraine.

Page 389

As part of this system, not only were all agricultural crops considered to be government property but all private trade and commerce were also forbidden; the banks were nationalized while all industrial plants of over five workers and all craft enterprises of over ten workers were nationalized. This culminated in peasant uprisings and urban riots. Within a week, peasant requisitioning was abandoned in favor of a "New Economic Policy" of free commercial activity in agriculture and other commodities, with the re-establishment of the profit motive and of private ownership in small industries and in small landholding.

Page 395

The Bolsheviks insisted that the distribution of income in a capitalistic society would become so inequitable that the masses of

the people would not obtain sufficient income to buy the goods being produced by the industrial plants. As such unsold goods accumulated with decreasing profits and deepening depression, there would be a shift toward the production of armaments to provide profits and produce goods which could be sold and there would be an increasingly aggressive foreign policy in order to obtain markets for unsold goods in backward and undeveloped countries. Such aggressive imperialism would inevitably make Russia a target of aggression in order to prevent a successful Communist system there from becoming an attractive model for the discontented proletariat in capitalistic countries.

Page 396

Communism in Russia alone required that the country must be industrialized with breakneck speed and must emphasize heavy industry and armaments rather than rising standards of living. This meant that goods produced by the peasants must be taken from them by political duress, without any economic return, and that the ultimate in authoritarian terror must be used to prevent the peasants from reducing their level of production. It was necessary to crush all kinds of foreign espionage, resistance to the Bolshevik state, independent thought, or public discontent.

Page 397

Stalin forced the peasants off their land. In the space of six weeks, (Feb-Mar 1930) collective farms increased from 59,400 with 4.4 million families to 110,200 farms with 14.3 million families. All peasants who resisted were treated with violence; their property was confiscated, they were beaten or sent into exile in remote areas; many were killed. This process, known as "the liquidation of the kulaks" affected five million kulak families. Rather than give up their animals, many peasants killed them. The number of cattle was reduced from 30.7 million in 1928 to 19.6 million in 1933. The planting season of 1930 was entirely disrupted. Three million peasants starved in 1931-1933. Stalin told Churchill that 12 million died in this reorganization of agriculture.

Page 401

The privileged rulers and their favorites had the best of everything obtained, however at a terrible price, at the cost of complete insecurity for even the highest party officials were under constant surveillance and would be inevitably purged to exile or death.

The growth of inequality was embodied in law. All restrictions on maximum salaries were removed. Special stores were established where the privileged could obtain scarce goods at low prices; restaurants with different menus were set up in industrial plants for different levels of employees; housing discrimination became steadily wider.

Page 402

As public discontent and social tensions grew, the use of spying, purges, torture and murder increased out of all proportion. Every wave of discontent resulted in new waves of police activity. Hundreds of thousands were killed while millions were arrested and exiled to Siberia or put into huge slave-labor camps. Estimates vary from two million as high as twenty million.

Page 403

For every leader who was publicly eliminated, thousands were eliminated in secret. By 1939, all the leaders of Bolshivism had been driven from public life and most had died violent deaths.

There were two networks of secret-police spies, unknown to each other, one serving the special department of the factory while the other reported to a high level of the secret police outside.

Page 404

Whenever the secret police needed more money it could sweep large

numbers of persons, without trial or notice, into its wage deduction system or into its labor camps to be hired out. It would seem that the secret police were the real rulers of Russia. This was true except at the very top where Stalin could always liquidate the head by having him arrested by his second in command in return for Stalin's promise to promote the arrester to the top position. In this way, the chiefs of the secret police were successively eliminated.

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CHAPTER IX: GERMANY FROM THE KAISER TO HITLER 1913-1945

Page 411

The German thirst for the coziness of a totalitarian way of life is the key to German national character. Decision, which requires the evaluation of alternatives, drives man to individualism, self-reliance and rationalism, all hateful qualities to Germanism.

Page 413

They wanted a cozy society which would so absorb the individual in its structure that he would never need to make significant decisions for himself. Held within a framework of known, satisfying personal relationships, such an individual would be safe because he would be surrounded by fellows equally satisfied with their own positions, each feeling important from his membership in the greater whole.

Page 414

The German abhors the need to make decisions. He feels it necessary to proclaim his position by verbal loudness which may seem boastful to outsiders.

Page 415

Germans are ill-at-ease with equality, democracy, individualism, freedom, and other features of modern life. Their neurological systems were a consequence of the coziness of German childhood, which, contrary to popular impression, was not a condition of misery and personal cruelty (as it often is in England) but a warm, affectionate and externally disciplined situation of secure relationships.

The Englishman is disciplined from within so that he takes his self-discipline, embedded in his neurological system, with him wherever he goes. The Englishman is the most socialized of Europeans, as the Frenchman is the most civilized, the Italian most completely gregarious, or the Spaniard most completely individualistic. But the German, by seeking external discipline, shows his unconscious desire to recapture the externally disciplined world of his childhood. With such discipline he may be the best behaved of citizens, but without it, he may be a beast.

He sees no need to make any effort to see anything from any point of view other than his own. The consequence is a most damaging inability to do this. His union, his neighborhood are the best and all others may be denigrated. His myopic or narrow-angled vision of the

universe must be universalized.
Page 417
The precarious structure left by Bismarck was not managed but merely hidden from public view by a facade of nationalistic, anti foreign, anti-Semitic, imperialistic, and chauvinistic propaganda of which the emperor was the center.
The monarchy represented the body, which was supported by four legs: the army, the landlords, the bureaucracy and the industrialists. The revolution of 1918 was not really a revolution at all because it removed the monarchy but it left the quartet of legs.
Page 426
The German inflation, which was a great benefit to the Quartet, destroyed the economic position of the middle classes and lower middle classes and permanently alienated them from the republic.

Page 427
The Nationalist Party built up a pervasive propaganda campaign to show that all Germany's problems were caused by the democratic and laboring groups, by the internationalists, and by the Jews.
Page 428
The Centre and Left shared this nationalistic poison sufficiently to abstain from any effort to give the German people the true story of Germany's responsibility for the war and for her own hardships. Thus the Right was able to spread its own story of the war, that Germany had been overcome by a "stab in the back" from "the three Internationals": the "Gold" International of the Jews, the "Red" International of the Socialists, and the "Black" International of the Catholics, an unholy triple alliance which was symbolized in the gold, red, and black flag of the Weimar Republic. Every effort was made to divert popular animosity at the defeat of 1918 and the Versailles settlement from those who were really responsible to the democratic and republican groups. At the same time, German animosity against economic exploitation was directed away from the landlords and industrialists by racist doctrines which blamed all such problems on bad Jewish international bankers and department store owners.
Page 429
The Nazi drive to build up a mass following was kept alive by the financial contributions of the Quartet. The Nazis were financed by the Black Reichswehr from 1919-1923, then this support ceased but was compensated for by the support of the industrialists, who financed the Nazis from Hitler's exit from prison in 1924 to the end of 1932.
The destruction of the Weimar Republic has five stages:
1) Bruning: March 24 1930 - May 30 1932
2) Von Papen: May 31 1932 - November 14 1932
3) Schleicher: December 2 1932 - January 28 1933
4) Hitler: January 30 1933 - March 5 1933
5) Gleichschaltung: March 6 1933 - August 2 1934
When the economic crisis began in 1929, Germany had a democratic government of the Center and Social Democratic parties. The crisis resulted in a decrease in tax receipts and a parallel increase in demands for government welfare services. This brought to a head the latent dispute over orthodox and unorthodox financing of a depression. Big business and big finance were determined to place the burden of the depression on the working classes by forcing the government to adopt a policy of deflation - that is, by wage reductions and curtailment of government expenditures. The Social Democrats wavered in their attitude but in general were opposed to this policy. Schacht, as president of the Reichsbank, was able to force the Socialist Rudolf Hilferding out of the position of minister of finance by refusing bank credit to the government until this was done.
In March 1930, the Center broke the coalition on the issue of

reduction of unemployment benefits, the Socialists were thrown out of the government, and Heinrich Bruning, leader of the Center Party, came in as chancellor. Because he did not have a majority, he had to put the deflationary policy into effect by the use of presidential decree. This marked the end of the Weimar Republic.

The Socialists permitted Bruning to remain in office by refusing to vote on a motion of no confidence. Left in office, Bruning continued the deflationary policy by decrees.

Page 431

Bruning's policy of deflation was a disaster. The suffering of the people was terrible with almost eight million unemployed out of twenty-five million employable.

Page 433

President Hindenburg had no liking for any unorthodox economic schemes.

The Quartet, especially the industrialists, decided that Hitler had learned a lesson and could safely be put into office as the figurehead of a Right government because he was growing weaker. The whole deal was arranged by Papen and was sealed in an agreement made at the home of Cologne banker Baron Kurt Von Schroder in 1933.

THE NAZI REGIME 1933-1934

Adolf Hitler's life had been a succession of failures, the seven years 1907-1914 being passed as a social derelict in Vienna and Munich. There he had become a fanatical Pan-German anti-semite, attributing his own failures to the "intrigues of international Jewry."

Page 434

During the Great War, he was an excellent soldier always volunteering for the most dangerous tasks. Although he was decorated with the Iron Cross first class in 1918, he was never promoted beyond Private First Class. His regiment of 3,500 suffered 3,260 killed and Hitler himself was wounded twice.

After the war, he stayed with the army and eventually became a political spy for the Reichswehr. In the course of spying on the numerous political groups, Hitler became fascinated by the rantings of Gottfried Feder against the "interest slavery of the Jews."

Hitler joined the National Socialist German Worker's Party which drew up a Twenty-five Point Program.

Page 435

These included:

4) all Jews and other aliens eliminated;
5) all unearned incomes to be abolished;
6) to punish all war profiteers and usurers with death.

Page 446

Prices were set at a level sufficient to give a profit to most participants and quotas were based on assessments estimated by the farmers themselves. The autarky program gave them a stable market for the products, shielding them from the vicissitudes which they had suffered under liberalism with its unstable markets and fluctuating prices. The prices fixed under Nazism were not high but were adequate, especially in combination with other advantages.

Payments for interest and taxes were both reduced.

All farms of over family size were made secure in possession of their owner's family, with no possibility of alienation, by increasing the use of entail on great estates and by the Hereditary Farms Act for lesser units.

Page 447

A law of December 28, 1939 stated, what had always been understood, that in his civil service work a party member was not subject to party orders but only to the orders of the civil service superior.

Page 448

There was a statutory provision which made it illegal for members of the armed services to be simultaneously members of the party.

Page 452

Maximum wage rates were set in June 1938. In return for exploitation of labor, the worker received certain compensations of which the chief was the fact that he was no longer threatened with the danger of mass unemployment. Increased economic activity went to nonconsumers' goods.

Page 454

The threat to industry from depression was eliminated.

CHAPTER X: BRITAIN: THE BACKGROUND TO APPEASEMENT, 1900-1939

Page 463

It is the Government that controls the House of Commons. This control is exercised through the Cabinet's control of the political machinery. This power over the party machinery is exercised through control of party funds and of nominations to constituencies. The fact party candidates are named by an inner clique is of tremendous importance and is the key to the control which the inner clique exercises over the House of Commons, yet it is rarely mentioned in books on the English political system. The party control is almost completely centralized in the hands of a largely self-perpetuating inner clique which has power of approval over all candidates. Cabinet can force the majority by using party discipline to pass bills.

Page 464

Britain can be divided into two groups, the "classes" and the "masses." The "classes" were the ones who had leisure. This meant that they had property and income and did not need to work for a living; they obtained an education in a separate and expensive system; they married within their own class; they had a distinctive accent; and they had a distinctive attitude based on the training provided in the special educational system of the "classes."

Page 465

This educational system was based on three great negatives:

a) education must not be vocational, not aimed at assisting one to make a living;

b) education is not aimed directly at creating or training intelligence;

c) education is not aimed at finding the "Truth."

It is aimed at developing a moral outlook, a respect for traditions, qualities of leadership and cooperation, and that ability for cooperation in competition summed up in the English idea of "sport" and "playing the game." Because of the restricted numbers of the upper class, these attitudes applied chiefly to one another, and did not necessarily apply to foreigners or even to the masses. They applied to people who "belonged" and not to all human beings.

Page 469

House members are expected to vote as their party whips tell them to and are not expected to understand the contents of the bills for which they are voting. Legislation originates in the meetings of the clique of the party, acting as first chamber. If accepted by the Cabinet, it passes the House of Commons almost automatically. This situation is sometimes called "Cabinet dictatorship."

Page 470

There have been restrictions on democracy in Britain almost all based on one criterion, the possession of wealth. Britain, until 1945, was the world's greatest plutocracy.

In political life, local government had a restricted suffrage. Elected members were unpaid thus restricting these posts to those who

had leisure (that is, wealth).
Page 471
Members of Parliament were, for years, restricted to the well-to-do by the fact that Members were unpaid. In 1938, each candidate must post a deposit of #150 amounting to more than the total annual income of about three-quarters of all English families which is forfeited if he does not receive over one-eighth of the total vote. As a result of these monetary barriers, the overwhelming mass of Englishmen could not participate actively in politics unless they could find an outside source of funds.
Until 1915, the two parties represented the same social class, the small group known as "society." Both Conservatives and Liberals were controlled by the same small clique consisting of no more than half-a-dozen chief families, their relatives and allies.
Page 472
At the beginning of the 20th century, the inner clique of the Conservative Party was made up almost completely of the Cecil family and their relatives.
This is quite different from the US where both major parties are middle-class parties and where geographic, religious and traditional influences are more important than class influences in determining party membership.
Page 474
In eight years (1931-1939) thirteen directors of the "Big Five Banks" and two directors of the Bank of England were raised to the peerage by the Conservative government. Of ninety peers created, thirty five were directors of insurance companies. In 1935, Walter Runciman, as president of the Board of Trade, introduced a bill to grant a subsidy of #2 million to tramp merchant vessels and gave #92,000 to his father's company in which he held 21,000 shares. There is relatively little objection to activities of this kind in England.
Page 475
The Labour Party arose because of the discovery by the masses of the people that their vote did not avail them much so long as the only choice of candidates was "Which of two rich people will you choose?"
Page 476
The radio, the second most important instrument of publicity, is sometimes run very unfairly. In the election of 1931, the government allowed 15 period on the BBC for political campaigning, it took 11, gave 3 to Labour and 1 to the Liberals.
Page 478
France is in sharp contrast where the amount of education by a student is limited only by his ability and willingness to work; and positions of importance in the civil service, the professions, and even business are available to those who do best in the system. In Britain, it is based largely on the ability to pay.
Page 479
For admission to the bar in England, a man had to be a member of one of the four Inns of Court. These are private clubs to which admission was by nomination with large admission fees. Sons of wage earners formed less than 1% of the admissions and members of the bar are almost entirely from the well-to-do classes. Since judges are appointed exclusively from barristers, the judicial system has also been monopolized by the upper classes. Obtaining justice has been complex, slow and above all, expensive. As a result, only the fairly well-to-do can defend their rights in a civil suit and if the less well-to-do go to court at all, they find themselves in an atmosphere completely dominated by members of the upper classes. Accordingly, the ordinary Englishman avoids litigation even when he has right on his side.
Page 483

The 1909 Liberal budget was aimed directly at Conservative supporters by its taxation of unearned incomes, especially from landed properties. Its rejection by the House of Lords was denounced by Asquith as a breach of the constitution which gave control over money bills to the House of Commons. The Lords refused to yield until Asquith threatened to create enough new peers to carry his bill. This bill provided that the Lords could not veto a money bill and could not prevent any other bill from becoming law if it was passed in three sessions of the Commons over a period of at least two years.
Page 485

Liberal Lloyd George's effort to deflate prices after the Great War in order to go back onto the gold standard was fatal to prosperity and domestic order. Unemployment and strikes increased.

The Conservatives prevented any realistic attack on these problems and passed the Emergency Power Act of 1920 which for the first time gave a peace-time government the right to proclaim a state of siege (as was done in 1920, 1921, 1926).
Page 486

In 1924, Winston Churchill, as chancellor of the Exchequer, carried out a stabilization policy which put England on the gold standard. This policy of deflation drove Britain into an economic depression and a period of labour conflict and the policy was so bungled in its execution that Britain was doomed to semi-depressions for almost a decade, to financial subjugation to France until 1931 and was driven closer to domestic rebellion than she had been at any time since the Chartist movement of 1848.

The deflation of 1926 hit the mines with special impact since prices could only be cut if wages were cut. The government invoked the Emergency Powers Act and the Trade Unions Congress ordered a General Strike but soon ended it leaving the striking miners to shift for themselves. The miners stayed out for six months and then began to drift back to work to escape starvation.
Page 489

In 1931, the Macmillan Committee reported that the whole financial structure was unsound and should be remedied by a managed currency, controlled by the Bank of England. The crisis revealed the incapacity of the Labour Party and the power of the bankers. Labour members had no understanding of economics. Snowden, the economic expert" of the Cabinet, had financial views about the same as Montagu Norman of the Bank of England.
Page 490

As for the bankers, they were in control throughout the crisis. While publicly they insisted on a balanced budget, privately, they refused to accept balancing by taxation and insisted on balancing by cuts in relief payments. Working in close cooperation with American bankers, they were in a position to overthrow any government which was not willing to crush them completely. While they refused cooperation to the Labour government, they were able to obtain a loan of #80 million from the US and France for the National Government when it was only four days old.

The National government at once attacked the financial crisis with a typical bankers' weapon: deflation. It offered a budget including higher taxes and drastic cuts in unemployment benefits and public salaries. Riots, protests, and mutiny in the navy were the results.

The domestic program of the National Government was to curtail the personal freedom of individuals. On this, there was no real protest for the Labour opposition had a program which, in fact if not in theory, tended in the same direction.
Page 491

The police of London were reorganized in 1933 to destroy their obvious sympathy with the working classes by restricting all ranks above inspector to persons with an upper-class education.

A severe Incitement to Disaffection Act in 1934 threatened to destroy the personal freedoms built up over centuries by making police searches of homes less restricted and making the simple possession of material likely to disaffect the armed forces a crime. For the first time in three generations, personal freedom and civil rights were restricted in time of peace. The Prevention of Violence Act of 1939 empowered a secretary of state to arrest without warrant and to deport without trial.

Page 492

Neville Chamberlain was chiefly responsible for the National government's fiscal policies. For the first time in almost a century, there was an increase in the proportion of total tax paid by the working class. For the first time since 1846, there was a tax on food. There was a reversal in the trend to more education for the people. The budget was kept balanced by at a considerable price in human suffering and in wastage of Britain's irreplaceable human resources. Hundreds of thousands had been unemployed for years and had their moral fiber completely destroyed by years of living on inadequate dole. The capitalists of these areas were supported either by government subsidy or were bought out by cartels and trade associations from funds assessed on the more active members of the industry.

Chamberlain's Derating Act of 1929 exempted industry from payment of three quarters of its taxes while many unemployed were allowed to starve.

CHAPTER XI: CHANGING ECONOMIC PATTERNS

Page 497

The economic system itself has become organized for expansion and if it does not expand, it tends to collapse. The basic reason for this maladjustment is that investment has become an essential part of the system and if investment falls off, consumers have insufficient incomes to buy the consumers' goods which are being produced in another part of the system because part of the flow of purchasing power created by the production of goods was diverted from purchasing goods it had produced into savings, and all the goods produced could not be sold until those savings came back into the market by being invested.

Page 498

If the groups in society who control the savings which are necessary for progress are the same vested interests who benefit by the existing way of doing things, they are in a position to defend these vested interests and prevent progress merely by preventing the use of surpluses to finance new inventions. The 20th century's economic crisis was a situation of this type.

GREAT BRITAIN

Page 499

The element of secrecy is one of the outstanding features of English business and financial life. The inner circle of English financial life remains a matter of "whom one knows," rather than "what one knows." Jobs are still obtained by family, marriage, or school connections and important positions are given to men who have no training, experience or knowledge to qualify them.

Page 500

At the core of English financial life have been seventeen private firms of "merchant bankers" with a total of less than a hundred active partners including Baring Brothers, N.M. Rothschild, J. Henry

Schroder, Morgan Grenfell, Hambros and Lazard Brothers. These merchant bankers had a dominant position with the Bank of England and, strangely enough, still have retained some of this, despite the nationalization of the Bank by the Labour government in 1946.

Page 501

Financial capitalism was marked not only by a growing financial control of industry but also by an increasing concentration of this control and by an increasing banking control of government.

The control of the Bank of England over business was exercised indirectly through the joint-stock banks. This growth of a "money trust" led to an investigation. A bill was drawn up to prevent further concentration but was withdrawn when the bankers made a "gentlemen's agreement" to ask Treasury permission for future amalgamations.

Page 502

In 1931, financiers led by Montagu Norman and J.P. Morgan forced the resignation of the British Labour government. But the handwriting was already on the wall. The deflationary financial policy of the bankers had alienated politicians and industrialists and driven monopolist trade unions to form a united front against the bankers. Labour and industry were united in opposition to continuance to the bankers' economic policy with its low prices and high unemployment. The decisive factor which caused the end of financial capitalism in Britain was the revolt of the British fleet in 1931 and not the abandonment of gold six days later. The mutiny made it clear that the policy of deflations must be ended. As a result, no effort was made to defend the gold standard.

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The Coal Mines Act of 1930 allowed the National Shipbuilders Security to buy up and destroy shipyards. By 1934, one quarter of Britain's shipbuilding capacity had been eliminated. The Purchase Finance Company was set up to buy up and destroy flour mills. By 1933, over one-sixth of the flour mills in England had been eliminated.

GERMANY

Page 507

In Germany, capital was scarce when industrialism arrived and industry found itself dependent upon banks almost at once. The chief credit banks floated securities for industry by granting credit to the firm, taking securities in return. These securities were slowly sold to the public with the bank retaining enough stock to give it control and appointing its men as directors to give that control final form.

The importance of interlocking directorships can be seen from the fact that the same Dresdner Bank had its directors on the boards of over two hundred industrial concerns in 1913.

This banking control of industry was made even closer since most investors left their securities on deposit with the banks which voted all this stock for directorships and other control measures, unless the stock-owners expressly forbade it. The banks also voted the stock left as collateral for loans and all stock bought on margin.

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The control of German financial capitalism rested in the credit banks. It was largely beyond the control of the government and rested in private hands. Of the hundreds of German credit banks, the eight so-called "Great Banks" were the masters of the German economy from 1865 to 1915 and controlled 74% of the capital assets of all 421 banks.

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I.G. Farbenindustrie made many individual cartel agreements with Du Pont and other American corporations.

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In France, Britain and the US, the war played a significant role in demonstrating conclusively that economic stagnation and

underemployment of resources were not necessary and could be avoided if the financial system were subordinated to the economic system. In Germany, this was not necessary since the Nazis had already made this discovery in the 1930s.

Thus a surplus of labor, low wages, experience in unorthodox financial operations and an immense task to be done all contributed to the German revival.

FRANCE

Page 515

With the founding of the Bank of France in 1800, financial power was in the hands of about ten or fifteen banking houses whose founders, in most cases, had come from Switzerland. These bankers, all Protestant, were deeply involved in the agitations leading up to the French Revolution. When it got out of the hand, they were the chief forces behind the rise of Napoleon. As a reward for this support, Napoleon gave these bankers a monopoly over French financial life by giving them control of the new Bank of France.

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By 1811, most of these bankers had gone over to the opposition and survived the change in regime in 1815. As a result, the Protestant bankers who had controlled financial life under the First Empire were still the main figures on the board of regents of the Bank of France until 1936. The chief names were Mirabaud, Mallet, Neuflize, and Hottinger.

In the course of the nineteenth century, a second group was added to French banking circles. This second group, largely Jewish, was also non-French origin, the majority Germanic (like Rothschild, Heine, Fould, Stern and Worms). A rivalry soon grew up between the older Protestant bankers and the newer Jewish bankers, largely along political rather than religious lines which grew confused as some of the Jewish group gave up their religion and moved over to the Protestant group.

The leadership of the Protestant group was exercised by Mirabaud, the leadership of the Jewish group was held by Rothschild. These two wings were so close that Mirabaud and Rothschild together dominated the whole financial system and frequently cooperated together even when their groups as a whole were in competition.

After 1838, this simple picture was complicated by the slow rise of a third group of bankers who were Catholics which soon split into two halves and joined the other two groups.

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The rivalry of these two great powers fills the pages of French history in the period 1884-1940. It paralyzed the French political system and economic system preventing economic recovery from the depression in 1935-1940.

From 1880-1925, the private bankers continued to exist and grow in power. They were at first chiefly interested in government obligations and the greatest bankers, like Mirabaud and Rothschild, had intimate connections with governments and weak connections with the economic life of the country.

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To finance railroads, the small savings of many were gathered and made available to the private banker to direct wherever he thought fitting. Thus the private banker became a manager of other persons' funds rather than lender of his own. The private banker became much more influential and much less noticeable. He now controlled billions where he formerly controlled millions and he did it unobtrusively, acting from the background, concealed from public view. The public did not notice that the names of private bankers and their agents still graced the list of directors of new financial enterprises.

Page 520

The centre of the French economic system in the 20th century was not to be found, as some have believed, in the Bank of France, but, instead, resided in a group of almost unknown institutions - the private banks. There were over a hundred of these private banks and two (Rothschild and Mirabaud) were more powerful than all the others combined. These private banks acted as the High Command of the French economic system. Their stock was closely held in the hands of about forty families. They were the same private banks which had set up the Bank of France divided into a group of seven Jewish banks, a group of seven Protestant banks and a group of five Catholic banks. The various groups continued to cooperate in the management of the Bank of France which was controlled until 1936, as it had been in 1813, by the handful of private banks which created it.

Page 521

The state was influenced by the Treasury's need for funds from the Bank of France.

These investment banks supplied long-term capital to industry and took stock and directorships in return. In 1931, Paribas held the securities of 357 corporations and its own directors and top managers held 180 directorships in 120 of the more important of these.

Page 522

The Jewish bankers were allied to Standard Oil and Rockefeller while the Catholic-Protestant bankers were allied to Royal Dutch Shell and Deterding.

Page 524

In 1936, there were about 800 important firms. Of these 800, the Paribas bloc controlled almost 400 and the Union-Comite bloc about 300.

Page 525

The whole Paribas system in the 20th century was headed by Baron Edouard de Rothschild with the chief center of operation in the Banque de Paris which controlled communications companies such as Havas. Havas was a great monopolistic news agency. It could, and did, suppress or spread both news and advertising. It received secret subsidies from the government for almost a century. The monopoly on distribution of periodicals and books could be used to kill papers which were regarded as objectionable.

After 1937, the Paribas bloc was badly split by the controversy over orthodox and unorthodox financial methods for dealing with depression. The Rothschild desire to form an alliance with Russia and adopt a policy of resistance to Hitler, continuing orthodox financial policies, collapsed from its own internal contradictions, their own lack of faith in it, and the pressure of Great Britain.

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The three prewar blocs have played no significant role in France since 1945 although Rene Mayer, active head of the Rothschild family interests was minister of finance in the early postwar government. Later in 1962, De Gaulle made the director of the Rothschild bank, George Pompidou, prime minister.

UNITED STATES OF AMERICA

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By the 1880s, the techniques of financial capitalism reached levels of corruption which were never approached in Europe. This corruption sought to cheat the ordinary investor by flotations and manipulations of securities for the benefit of insiders. The practitioners of these dishonesties were as socially acceptable as their wealth entitled them to be without animadversions on how that wealth was obtained.

Page 530

Corrupt techniques associated with the names Daniel Drew and Jay Gould were also practiced by Morgan and others who became respectable from longer sustained success.

Any reform of Wall Street practices came from pressure from the farming West and was long delayed by the close alliance of Wall Street with the two major political parties. By 1900, the influence of Morgan in the Republican party was dominant, his chief rivalry coming from Rockefeller of Ohio.

From 1880 to 1930, financial capitalism approximated a feudal structure in which two great powers, centered in New York, dominated a number of lesser powers. No description of this structure as it existed in the 1920s can be given in a brief compass, since it infiltrated all aspects of American life and especially all branches of economic life.

At the center were a group of less than dozen investment banks which were still unincorporated partnerships at the height of their powers. These included J.P. Morgan, the Rockefeller family, Kuhn, Loeb, Dillon, Read, Brown Brothers and Harriman, and others. Each of these was linked in organizational or personal relationships with various banks, insurance companies, railroads, utilities and industrial firms. The result was to form a number of webs of economic power.

J.P. Morgan worked in close relationship with a group of banks and insurance companies. The whole nexus dominated a network of business firms which included at least one-sixth of the two hundred largest non-financial corporations.

Page 531

The Rockefeller group, investing only its own profits, functioned as a capitalist unit in close cooperation with Morgan and controlled over half the assets of the oil industry.

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The economic power represented by these figures is almost beyond imagination to grasp. Morgan and Rockefeller together frequently dominated the national Republican Party while Morgan occasionally had extensive influence in the national Democratic Party. These two were also powerful on the state level, especially Morgan in New York and Rockefeller in Ohio. Mellon was a power in Pennsylvania and Du Pont in Delaware.

In the 1920s, this system of economic and political power formed a hierarchy headed by the Morgan interests and played a principal role both in political and business life. Morgan, operating on the international level in cooperation with his allies abroad, especially in England, influenced the events of history to a degree which cannot be specified in detail but which certainly was tremendous. The deflationary financial policies on which these bankers insisted were laying the foundations of the economic collapse into general social disaster by 1940. Unemployment which had reached 13 million persons in 1933 was still at 10 million in 1940

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The deflationary policies of the bankers were acceptable to heavy industry chiefly because it was not unionized. With assembly-line techniques financed by the bankers and unorganized labor, the employers could rearrange, curtail, or terminate labor without notice on a daily basis and could thus reduce labor costs to meet falls in prices from bankers' deflation.

The fact that reductions in wages and large lay-offs also reduced the volume of purchasing power as a whole, to the injury of the groups selling consumers' goods, was ignored by the makers of heavy producers' goods. In this way, farmers and other segments of the society were injured by the deflationary policies of the bankers and

by the employment policies of heavy industry, closely allied to the bankers.

When these policies became unbearable in the depression of 1929-1933, these other interest blocs deserted the Republican party which remained subservient to high finance and heavy industry. The shift of the farm bloc to the Democratic Party in 1932 resulted in the election of Franklin D. Roosevelt and the New Deal.

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The New Deal's actions against finance did not represent any victory for unorthodox financing, the real key to either monopoly capitalism or to a managed pluralist society. The reason for this was that the New Deal was fundamentally orthodox in its ideas on the nature of money. Roosevelt was quite willing to unbalance the budget and to spend in a depression in an unorthodox fashion because he had grasped the idea that lack of purchasing power was the cause of the lack of demand which made unsold goods and unemployment, but he had no idea of the causes of the depression and had quite orthodox ideas on the nature of money. As a result, his administration treated the symptoms rather than the causes of the depression and, while spending unorthodoxly to treat these symptoms, did so with money borrowed from the banks in the accepted fashion. The New Deal allowed bankers to create the money, borrowed it from the banks,and spent it. This meant that the New Deal ran up the national debt to the credit of the banks, and spent money in such a limited fashion that no drastic re-employment of idle resources was possible.

One of the most significant facts about the New Deal was its orthodoxy on money. For the whole 12 years he was in the White House, Roosevelt had statutory power to issue fiat money in the form of greenbacks printed by the government without recourse to the banks. This authority was never used. As a result of such orthodoxy, the depression's symptoms of idle resources were overcome only when the emergency of the war in 1942 made it possible to justify a limitless increase in the national debt by limitless borrowing from private persons and the banks. But the whole episode showed a failure to grasp the nature of money and the function of the monetary system, of which considerable traces remained in the postwar period.

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One reason for the New Deal's readiness to continue with an orthodox theory of the nature of money, along with an unorthodox practice in its use, arose from the failure of the Roosevelt administration to recognize the nature of the economic crisis itself. This failure can be seen in Roosevelt's theory of "pump priming." He sincerely believed, as did his Secretary of the Treasury, that there was nothing structurally wrong with the economy, that it was temporarily stalled, and would keep going of its own powers if it could be restarted...

The inadequacy of this theory of the depression was shown in 1937 when the New Deal, after four years of pump priming and a victorious election in 1936, stopped its spending. Instead of taking off, the economy collapsed in the steepest recession in history. The New Deal had to resume its treatment of symptoms but now without hope that the spending program could ever be ended, a hopeless prospect since the administration lacked the knowledge of how to reform the system or even how to escape from borrowing bank credit with its mounting public debt, and the administration lacked the courage to adopt the really large-scale spending necessary to give full employment of resources. The administration was saved from this impasse by the need for the rearmament program followed by the war. Since 1947 the Cold War and the space program have allowed the same situation to continue, so that even today, prosperity is not the result of a properly organized economic system but of government spending, and any drastic reduction

in such spending would give rise to an acute depression.
THE ECONOMIC FACTORS
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     There are a number of important elements in the economic situation of the 20th century.
     8. The increasing disparity in the distribution of income is the most controversial and least well-established characteristic of the system. It would appear that the disparity in national income has been getting wider.
     In the US, the richest one-fifth receive 46% of the income in 1910, 51% in 1929 and 48% in 1937. In the same three years, the share of the poorest one-fifth fell from 8% to 5.4% to 3.6%
     If instead of one-fifth, we examine the richest and poorest one-tenth, in 1910 the ratio was 10, in 1929 it was 21.7, in 1937, it was 34.4. This means that the rich were getting richer relatively and probably absolutely while the poor were getting poorer both relatively and absolutely.
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     The progressives who insisted that the lack of investment was caused by lack of consumer purchasing power were correct. But the conservatives who insisted that the lack of investment was caused by lack of confidence were also correct. Each was looking at the opposite side of a single continuous cycle:
a) purchasing power creates demand for goods;
b) demand for goods creates confidence in the minds of investors;
c) confidence creates new investment;
d) new investment creates purchasing power which then creates demand.
     It would appear that the economic factors alone affected the distribution of incomes in the direction of increasing disparity.
Page 543
     In Germany, Hitler's 1934 adoption of an unorthodox financial policy which raised the standards of living of the lower-income levels even more drastically (by shifting them from unemployment with incomes close to nothing into wage-earning positions in industry) was not acceptable to the high-income classes because it stopped the threat of revolution by the discontented masses and because it was obviously of long-run benefit to them. This long-run benefit began to appear when capacity employment of capital and labor was achieved in 1937.
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     In the modern economic community, the sum total of goods and services appearing in the market is at one and the same time the income of the community and the aggregate cost of producing goods and services in question. Aggregate costs, aggregate incomes and aggregate prices are the same since they are merely opposite sides of the identical expenditures.
     The purchasing power available in the community is equal to income minus savings. If there are any savings, the available purchasing power will be less than the aggregate prices being asked for the products for sale and the amount of the savings. Thus, all the goods and services produced cannot be sold as long as savings are held back. In order for al the goods to be sold, it is necessary for the savings to reappear in the market as purchasing power. The disequilibrium between purchasing power and prices which are created by the act of saving is restored completely by the act of investment, and all the goods can be sold at the prices asked. But whenever investment is less than savings, the available supply of purchasing power is inadequate by the same amount to by the goods being offered. This margin by which purchasing power is inadequate because of an excess of savings over investment may be called the "deflationary gap."This "deflationary gap" is the key to the twentieth century

economic crisis and one of the three central cores of the whole tragedy of the century.

THE RESULTS OF THE ECONOMIC DEPRESSION

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The deflationary gap arising from a failure of investment to reach the level of savings can be closed either by lowering the supply of goods to the level of available purchasing power or by raising the supply of purchasing power to a level able to absorb the existing supply of goods, or a combination of both. The first solution will give a stabilized economy on a low level of activity; the second will give a stabilized economy on a high level of activity. Left to itself, the economic system under modern conditions would adopt the former procedure working as follows: The deflationary gap will result in falling prices, declining economic activity and rising unemployment. This will result in a fall in national income resulting in an even more rapid decline in the volume of savings. This decline continues until the volume of savings reaches the level of investment at which point the fall is arrested and the economy becomes stabilized at a low level.

This process did not work itself out in any industrial country during the great depression because the disparity in national income was so great that a considerable portion of the population would have been driven to zero incomes and absolute want before savings of the richer segment fell to the level of investment. Under such conditions, the masses of population would have been driven to revolution and the stabilization, if reached, would have been on a level so low that a considerable portion of the population would have been in absolute want. Because of this, governments took steps to arrest the course of the depression before their citizens were driven to desperation.

The methods used to deal with the depression and close the deflationary gap were all reducible to two fundamental types:

a) those which destroy goods, and

b) those which produce goods which do not enter the market.

The destruction of goods will close the deflationary gap by reducing the supply of unsold goods through lowering the supply of goods to the level of the supply of purchasing power. It is not generally realized that this method is one of the chief ways in which the gap is closed in a normal business cycle where goods are destroyed by the simple expedient of not producing the goods which the system is capable of producing. The failure to use full level of 1929 output represented a loss of $100 billion in the US, Britain and Germany alone. This loss was equivalent to the destruction of such goods. Destruction of goods by failure to gather the harvest is a common phenomenon under modern conditions. When a farmer leaves his crop unharvested because the price is too low to cover the expense of harvesting, he is destroying the goods. Outright destruction of goods already produced is not common and occurred for the first time as a method of combating depression in the years 1930-1934. During this period, stores of coffee, sugar, and bananas were destroyed, corn was plowed under, and young livestock was slaughtered to reduce the supply on the market. The destruction of goods in warfare is another example of this method of overcoming deflationary conditions in the economic system.

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The second method of filling the deflationary gap, namely, by producing goods which do not enter the market, accomplishes its purpose by providing purchasing power in the market, since the costs of production of such goods do enter the market as purchasing power, while the goods themselves do not drain funds from the system if they are not offered for sale. New investment was the usual way in which this was accomplished in the normal business cycle but it is not the

normal way of filling the gap under modern conditions of depression. We have already seen the growing reluctance to invest and the unlikely chance that the purchasing power necessary for prosperity will be provided by a constant stream of private investment. It this is so, the funds for producing goods which do not enter the market must be sought in a program of public spending.

Any program of public spending at once runs into the problems of inflation and public debt. These are the same two problems mentioned in connection with the efforts of government to pay for the First World War. The methods of paying for a depression are exactly the same as the methods of paying for a war, except that the combination of methods used may be somewhat different because the goals are somewhat different. In financing a war, we should seek to achieve a method which will provide a maximum of output with a minimum of inflation and public debt. In dealing with a depression, since a chief aim is to close the deflationary gap, the goal will be to provide a maximum of output with a necessary degree of inflation and a minimum of public debt. Thus the use of fiat money is more justifiable in financing a depression than in financing a war. Moreover the selling of bonds to private persons in wartime might well be aimed at the lower-income groups in order to reduce consumption and release facilities for war production, while in a depression (where low consumption is the chief problem) such sales of bonds to finance public spending would have to be aimed at the savings of the upper-income groups.

These ideas on the role of government spending in combating depression have been formally organized into the "theory of the compensatory economy." This theory advocates that government spending and fiscal policies be organized so that they work exactly contrary to the business cycle, with lower taxes and larger spending in deflationary period and higher taxes with reduced spending in a boom period, the fiscal deficits of the down cycle being counterbalanced in the national budget by the surpluses of the up cycle.

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This compensatory economy has not been applied with much success in any European country except Sweden. In a democratic country, it would take the control of taxing and spending away from the elected representatives of the people and place this precious "power of the purse" at the control of the automatic processes of the business cycle as interpreted by bureaucratic (and representative) experts. Moreover, all these programs of deficit spending are in jeopardy in a country with a private banking system. In such a system, the creation of money (or credit) is usually reserved for the private banking institutions and is deprecated as a government action. The argument that the creation of finds by the government is bad while creation of funds by the banks is salutary is very persuasive in a system based on traditional laissez faire and in which the usual avenues of communications (such as newspapers and radio) are under private, or even banker, control.

Public spending as a method of counteracting depression can vary very greatly in character, depending on the purposes of the spending. Spending for destruction of goods or for restriction of output, as under the New Deal agricultural program, cannot be justified easily in a democratic country with freedom of communications because it obviously results in a decline in national income and living standards.

Spending for non-productive monuments is somewhat easier to justify but is hardly a long-run solution.

Spending for investment in productive equipment (like the Tennessee Valley Authority Dam) is obviously the best solution since it leads to an increase in national wealth and standards of living and

is a long-run solution but it marks a permanent departure from a system of private capitalism and can be easily attacked in a country with a capitalistic ideology and a private banking system.

Spending on armaments and national defence is the last method of fighting depression and is the one most readily and most widely adopted in the twentieth century.

A program of public expenditure on armaments is a method for filling the deflationary gap and overcoming depression because it adds purchasing power to the market without drawing it out again later (since the armaments, once produced, are not put up for sale). From an economic point of view, this method of combating depression is not much different from the method listed earlier under destruction of goods, for, in this case also, economic resources are diverted from constructive activities or idleness to production for destruction. The appeal of this method for coping with the problem of depression does not rest on economic grounds at all, for, on such grounds, there is no justification. It's appeal is rather to be found on other, especially political, grounds.

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The adoption of rearmament as a method of combating depression does not have to be conscious. The country which adopts it may honestly feel that it is adopting the policy for good reasons, that it is threatened by aggression, and that a program of re-armament is necessary for political protection. It is very rare for a country consciously to adopt a program of aggression, for, in most wars, both sides are convinced that their actions are defensive. It is almost equally rare for a country to adopt a policy of re-armament as a solution for depression. If a country adopts re-armament because of fear of another's arms and these last are the result of efforts to fill a deflationary gap, it can also be said that the re-armament of the former has a basic economic cause.

In the 20th century, the vested interests usually sought to prevent the reform of the economic system (a reform whose need was made evident by the long-drawn-out depression) by adopting an economic program whose chief element was the effort to fill the deflationary gap by re-armament.

THE PLURALIST ECONOMY AND WORLD BLOCS

The economic disasters of two wars, a world depression, and the post-war fluctuations showed clearly by 1960 that a new economic organization of society was both needed and available. The laissez-faire competitive system had destroyed itself and almost destroyed civilization as well by its inability to distribute the goods it could produce. The system of monopoly capitalism had helped in this disaster.

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The almost simultaneous failure of laissez-faire, Fascism, and of Communism to satisfy the growing popular demand both for rising standards of living and for spiritual liberty had forced the mid-20th century to seek some new economic organization.

Underdeveloped peoples have been struck by the conflicting claims of the two great super-Powers.. The former offered the goods the new peoples wanted (rising standards of living and freedom) while the latter seemed to offer methods of getting these goods (by state accumulation of capital, government direction of resources) which might tend to smother these goals. The net result has been a convergence toward a common, if remote, system of the future whose ultimate nature is not yet clear but which we might call the "pluralist economy."

CHAPTER XII: THE POLICY OF APPEASEMENT 1931-1936

Page 559

The structure of collective security was destroyed completely under the assaults of Japan, Italy and Germany who were attacking the whole nineteenth century way of life and some of the most fundamental attributes of Western Civilization itself. They were in revolt against democracy, against the parliamentary system, against laissez-faire and the liberal outlook, against nationalism (although in the name of nationalism), against humanitarianism, against science and against all respect for human dignity and human decency. It was recruited from the dregs of society.

Page 560

During the nineteenth century, goals were completely lost or were reduced to the most primitive level of obtaining more power and more wealth. But the constant acquisition of power or wealth, like a narcotic for which the need grows as its use increases without in any way satisfying the user, left man's "higher" nature unsatisfied.

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Germany could have made no aggression without the acquiescence and even in some cases the actual encouragement of the "satisfied" Powers, especially Britain.

THE JAPANESE ASSAULT, 1931-1941

The similarity between Germany and Japan was striking: each had a completely cartelized industry, a militaristic tradition, a hard-working population which respected authority and loved order, a facade of parliamentary constitutionalism which barely concealed the reality of power wielded by an alliance of army, landlords, and industry.

Page 562

The steady rise in tariffs against Japanese manufactured goods after 1897 led by America served to increase the difficulties of Japan's position. The world depression and the financial crisis hit Japan a terrible blow. Under this impact, the reactionary and aggressive forces were able to solidify their control and embark on that adventure of aggression and destruction that ultimately led to the disasters of 1945.

Page 563

Separate from the armed forces were the forces of monopoly capitalism, the eight great economic complexes controlled as family units knows as "zaibatsu" which controlled 75% of the nation's wealth. By 1930, the militarists and zaibatsu came together in their last fateful alliance.

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Japan's unfavorable balance of trade was reflected in a heavy outflow of gold in 1937-1938. It was clear that Japan was losing its financial and commercial ability to buy necessary materials of foreign origin. The steps taken by America, Australia, and others to restrict export of strategic or military materials to Japan made this problem even more acute. The attack on China had been intended to remedy this situation by removing the Chinese boycott on Japanese goods.

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Under the pressure of the growing reluctance of neutral countries to supply Japan with necessary strategic goods, the most vital being petroleum products and rubber, it seemed that the occupation of the Dutch Indies and Malaya could do much to alleviate these shortages but which would lead to an American war on Japan. They decided to attack the United States first.

THE ITALIAN ASSAULT, 1934-1936

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In 1922, the Fascists came to power in a parliamentary system; in 1925 it was replaced by a political dictatorship while the economic system remained that of orthodox financial capitalism; in 1927 an orthodox and restrictive stabilization of the lira on the

international gold standard led to such depressed economic conditions that Mussolini adopted a much more active foreign policy; in 1934 Italy replaced orthodox economic measures by a totalitarian economy functioning beneath a fraudulent corporate facade.

Italy was dissatisfied over its lack of colonial gains at Versailles and the refusal of the League to accede to Tittoni's request for a redistribution of the world's resources in accordance with population needs made in 1920.

In a series of agreements with Austria and Hungary known as the "Rome Protocols," the Austrian government under Engelbert Dollfuss destroyed the democratic institutions of Austria, wiped out all Socialist and working-class organizations, and established a one-party dictatorial corporate state at Mussolini's behest in 1934. Hitler took advantage of this to attempt a Nazi coup in Austria, murdering Dollfuss in July 1934 but he was prevented by the quick mobilization of Italian troops on the Brenner frontier and a stern warning from Mussolini.

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Hitler's ascension to office in Germany in 1933 found French foreign policy paralyzed by British opposition to any efforts to support collective security or to enforce German observation of its treaty obligations by force. As a result, a suggestion from Poland in 1933 for joint armed intervention in Germany to remove Hitler from office was rejected by France. Poland at once made an non-aggression pact with Germany and extended a previous one with the Soviet Union.

In 1934, France under Jean Louis Bathou, began to adopt a more active policy against Hitler seeking to encircle Germany by bringing the Soviet Union and Italy into a revived alignment of France, Poland, the Little Entente, Greece and Turkey.

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France's Laval was convinced that Italy could be brought into the anti-German front only if its long-standing grievances and unfulfilled ambitions in Africa could be met. Accordingly, he gave Mussolini 7% of the stock in the Djibouti-Addis Ababa Railway, a stretch of desert 114,000 square miles in extent but containing only a few hundred persons (sixty-two according to Mussolini) on the border of Libya, a small wedge of territory between French Somaliland and Italian Eritrea, and the right to ask for concessions throughout Ethiopia.

While Laval insisted that he had made no agreement which jeopardized Ethiopia's independence or territorial integrity, he made it equally clear that Italian support against Germany was more important than the integrity of Ethiopia in his eyes. France had been Ethiopia's only friend and had brought it into the League of Nations. Italy had been prevented from conquering Ethiopia in 1896 only by a decisive defeat of her invading forces at the hands of the Ethiopians themselves, while in 1925, Britain and Italy had cut her up into economic spheres by an agreement which was annulled by a French appeal to the League. Laval's renunciation of France's traditional support of Ethiopian independence brought Italy, Britain and France into agreement on this issue.

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This point of view was not shared by public opinion in these three countries. Stanley Baldwin (party leader and prime minister) erected one of the most astonishing examples of British "dual" policy in the appeasement period. While publicly supporting collective security and sanctions against Italian aggression, the government privately negotiated to destroy the League and to yield Ethiopia to Italy. They were completely successful in this secret policy.

The Italian invaders had no real fear of British military sanctions when they put a major part of their forces in the Red Sea

separated from home by the British-controlled Suez canal. The British government's position was clearly stated in a secret report by Sir John Maffey which declared that Italian control of Ethiopia would be a "matter of indifference" to Britain. This opinion was shared by the French government too.

Unfortunately, public opinion was insisting on collective sanctions against the aggressor. To meet this demand, both governments engaged in a public policy of unenforced or partially enforced sanctions at wide variance with their real intentions.

Foreign Secretary Samuel Hoare delivered a smashing speech to support sanctions against Italy. The day previously he and Anthony Eden had secretly agreed with Pierre Laval to impose only partial economic sanctions avoiding all actions such as blockade of the Suez canal.

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A number of governments including Belgium, Czechoslovakia, France and Britain had stopped all exports of munitions to Ethiopia as early as May 1935 although Ethiopia's appeal to the League for help had been made on March 17th while the Italian attack did not come until October. The net result was that Ethiopia was left defenceless and her appeal to the US for support was at once rejected.

Hoare's speech evoked such applause from the British public that Baldwin decided to hold a general election on that issue. Accordingly, with ringing pledge to support collective security, the National government won an amazing victory and stayed in power until the next general election ten years later (1945).

Although Article 16 of the League Covenant bound the signers to break off all trade with an aggressor, France and Britain combined to keep their economic sanctions partial and ineffective. The imposition of oil sanctions was put off again and again until the conquest of Ethiopia was complete. The refusal to establish this sanction resulted from a joint British-French refusal on the grounds that an oil sanction would be so effective that Italy would be compelled to break of its was with Ethiopia and would, in desperation, make war on Britain and France. This, at least, was the amazing logic offered by the British government later.

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Hoare and Laval worked out a secret deal which would have given Italy outright about one-sixth of Ethiopia. When news of this deal was broken to the public, there was a roar of protest on the grounds that this violated the election pledge made but a month previously. To save his government, Baldwin had to sacrifice Hoare who resigned on December 19 but returned to Cabinet on June 5 as soon as Ethiopia was decently buried. Laval fell from office and was succeeded by Pierre Flandin who pursued the same policy.

Ethiopia was conquered on May 2 1936. Sanctions were removed in the next two months just as they were beginning to take effect. The consequences of the Ethiopian fiasco were of the greatest importance. The Conservative Party in England was entrenched in office for a decade during which it carried out its policy of appeasement and waged the resulting war. The US passed a "Neutrality Act" which encouraged aggression, at the outbreak of war, by cutting off supplies to both sides, to the aggressor who had armed at his leisure and to the victim as yet unarmed. Above all, it destroyed French efforts to encircle Germany.

CIRCLES AND COUNTERCIRCLES, 1935-1939

Page 577

The remilitarization of the Rhineland in violation of the Versailles Treaty was the most important result of the Ethiopian crisis.

Page 578

In order to destroy the French and Soviet alliances with Czechoslovakia, Britain and Germany sought to encircle France and the Soviet Union in order to dissuade France from honoring its alliances with either Czechoslovakia or the Soviet Union and France, finding itself encircled, dishonored its alliance with Czechoslovakia when it came due in 1938.

Page 579

The British attitude towards eastern Europe was made perfectly clear when Sir John Simon demanded arms equality for Germany. Adding to the encirclement of France was the Anglo-German Naval Agreement of June 1935.

Page 580

Parallel with the encirclement of France went the encirclement of the Soviet Union known as the anti-Comintern Pact, the union of Germany and Japan against Communism.

The last encirclement was that against Czechoslovakia. Hungary and Germany were both opposed to Czechoslovakia as an "artificial" creation of the Versailles Conference. The Polish-German agreement of 1934 opened a campaign until the Polish invasion in 1938.

An analysis of the motivations of Britain in 1938-1939 is bound to be difficult because the motives of government were clearly not the same as the motives of the people and in no country has secrecy and anonymity been carried so has been been so well preserved as in Britain. In general, motives become vaguer and less secret as we move our attention from the innermost circles of the government outward. As if we were looking at the layers of an onion, we may discern four points of view:

1) the anti-Bolsheviks at the center;
2) the "three-bloc-world" supporters close to the center;
3) the supporters of "appeasement" and
4) the "peace at any price" group in peripheral position.

Page 581

The chief figures in the anti-Bolshevik group were Lord Curzon, Lord D'Abernon and General Smuts. They did what they could to destroy reparations and permit German re-armament.

This point of view was supported by the second group, the Round Table Group, and came later to be called the Clivenden Set which included Lord Milner, Lord Brand (managing director of Lazard Brothers, international bankers). This group wielded great influence because it controlled the Rhodes Trust and dominated the Royal Institute of International Affairs. They sought to contain the Soviet Union rather than destroy it as the anti-Bolsheviks wanted. They advocated a secret alliance of Britain with the German military leaders against the Soviet.

Page 583

Abandoning Austria, Czechoslovakia and the Polish Corridor to Germany was the aim of both the anti-Bolsheviks and the "three-bloc" people.

Page 584

From August 1935 to March 1939, the government built upon the fears of the "peace at any price" group by steadily exaggerating Germany's armed might and belittling their own, by calculated indiscretions like the statement that there were no real anti-aircraft guns in London, by constant hammering at the danger of air attack without warning, by building ostentatious and quite useless air-raid trenches in the streets and parks of London, and by insisting through daily warnings that everyone must be fitted with a gas mask immediately (although the danger of a gas attack was nil). In this way, the government put London into a panic in 1938 and by this panic, Chamberlain was able to get the people to accept the destruction of

Czechoslovakia. Since he could not openly appeal on the anti-Bolshevik basis, he had to adopt the expedient of pretending to resist (in order to satisfy the British public) while really continuing to make every possible concession to Hitler which would bring Germany to a common frontier with the Soviet Union.

Page 585

Chamberlain's motives were not really bad ones; he wanted peace so he could devote Britain's limited resources to social welfare; but he was narrow and totally ignorant of the realities of power, convinced that international politics could be conducted in terms of secret deals, as business was, and he was quite ruthless in carrying out his aims, especially in his readiness to sacrifice non-English persons who, in his eyes, did not count.

THE SPANISH TRAGEDY, 1931-1939

Page 587

From the invasion of the Arabs in 711 to their final ejection in 1492, Spanish life has been dominated by the struggle against foreign intruders. As a result of more than a thousand years of such struggles, almost all elements of Spanish society have developed a fanatical intolerance, an uncompromising individualism, and a fatal belief that physical force is a solution to all problems, however spiritual.

Page 588

The war of 1898, by depriving Spain of much of its empire, left its over-sized army with little to do and with a reduced area on which to batten. Like a vampire octopus, the Spanish Army settled down to drain the life-blood of Spain and, above all, Morocco. This brought the army officers into alignment with conservative forces consisting of the Church (upper clergy), the landlords, and the monarchists. The forces of the proletariat discontent consisted of the urban workers and the much larger mass of exploited peasants.

Page 591

In 1923, while most of Spain was suffering from malnutrition, most of the land was untilled and the owners refused to use irrigation facilities which had built by government. As a result, agricultural yields were the poorest in western Europe. While 15 men owned about a million acres and 15,000 men owned about the of all taxed land, almost 2 million owned the other half, frequently in plots too small for subsistence. About 2 million more, who were completely landless, worked 10 to 14 hours a day for about 2.5 pesetas (35 cents) a day for only six months in the year and paid exorbitant rents without any security of tenure.

In the Church, while the ordinary priests share the poverty and tribulations of the people, the upper clergy were closely allied with government and supported by an annual grant. They had seats in the upper chamber, control of education, censorship, marriage. In consequence of this alliance of the upper clergy with government and the forces of reaction, all animosities built against the latter came to be directed against the former also. Although the people remained universally and profoundly catholic, they also became incredibly anticlerical reflected in the proclivity for burning churches.

All these groups, landlords, officers, upper clergy, and monarchists, were interest groups seeking to utilize Spain for their own power and profit.

Page 592

Alfonso XIII ordered municipal elections but in 46 out of 50 provincial capitals, the anti-monarchial forces were victorious. Alfonso fled to France on April 14, 1931.

The republicans at once began to organize their victory, electing a Constituent Assembly in June and establishing an ultramodern uni-

cameral, parliamentary government with universal suffrage, separation of Church and State, secularization of education, local autonomy for separatist areas and power to socialize the great estates or the public utilities.

The republic lasted only five years before Civil War began in 1936 after being challenged constantly from the Right and the extreme Left. Because of shifting governments, the liberal program which was enacted into law in 1931 was annulled or unenforced.

Page 593

In an effort to reduce illiteracy (over 45% in 1930), the republic created thousands of new schools and new teachers, raised teachers' salaries, founded over a thousand libraries.

Army officers were reduced with the surplus being retired on full pay. The republican officers tended to retire, the monarchists to stay on.

To assist the peasants and workers, mixed juries were established to hear rural rent disputes, importation of labor for wage-breaking purposes was forbidden; and credit was provided for peasants to obtain land, seed, or fertilizers on favorable terms. Customarily uncultivated lands were expropriated with compensation to provide farms for a new class of peasant proprietors.

Most of these reforms went into effect only partially. Few of the abandoned estates could be expropriated because of the lack of money for compensation.

Page 594

The conservative groups reacted violently. Three plots began to be formed against the new republic, the one monarchist led by Sotelo in parliament and by Goicoechea behind the scenes; the second a parliamentary alliance of landlords and clericals under Robles; and the last a conspiracy of officers under Generals Barrera and Sanjurjo.

In the meantime, the monarchist conspiracy was organized by former King Alfonso from abroad. Goicoechea performed his task with great skill under the eyes of a government which refused to take preventative action because of its own liberal and legalistic scruples. He organized an alliance of the officers, the Carlists, and his own Alfonsist party. Four men from these three groups then signed an agreement with Mussolini in 1934 who promised arms, money, diplomatic support and 1.5 million pesetas, 10,000 rifles,10,000 grenades, and 200 machine guns. In return, the signers promised to sign a joint export policy with Italy.

Page 595

The Robles coalition of Right parties with the clerical party and agrarian party of landlords was able to replace the Left Republican Azana by the Right Republican Lerroux as prime minister. It then called new elections, won victory and revoked many of the 1931 reforms while allowing most of the rest to go unenforced and restored expropriated estates.

This led to a violent agitation which burst into open revolt in the two separatist centers of the Basque country and Catalonia. The uprising in Asturias spearheaded by anarchist miners hurling dynamite from slings, lasted for nine days. The government used the Foreign Legion and Moors, brought to Morocco by sea, and crushed the rebels without mercy. The latter suffered at 5,000 casualties. After the uprising, 25,000 suspects were thrown into prison.

The uprising of October 1934, although crushed, split the oligarchy. The demands of the army, monarchists and the biggest landlords for a ruthless dictatorship alarmed the leaders of the Church and president of the republic Zamora. Robles as minister of war encouraged reactionary control of the army and even put General Franco in as his undersecretary of war.

Page 596

For the 1936 elections, the parties of the Left formed the Popular Front with a published program promising a full restoration of the constitution, amnesty for political crimes committed after 1933, civil liberties, an independent judiciary, minimum wages, protection for tenants, reform of taxation, credit, banking. It repudiated the Socialist program for nationalization of the land, the banks, and industry.

While all the Popular Front parties would support the government, only the bourgeois parties would hold seats in the Cabinet while the workers parties such as the Socialists would remain outside.

The Popular Front captured 266 of 473 seats while the Right had 153, the Center 54, CEDA 96, Socialists 87, Republic Left 81, Communists 14.

The defeated forces of the Right refused to accept the election results and tried to persuade Valladeres to hand over the government to General Franco. That was rebuffed. On Feb. 20, the conspirators met and decided the time was not yet ripe. The new government heard of this meeting and transferred Franco to the Canary Islands. The day before he left Madrid, Franco met with the chief conspirators and they completed their plans for a military revolt but fixed no date.

In the meantime, provocation, assassination, and retaliation grew steadily with the verbal encouragement of the Right. Property was seized or destroyed and churches were burned on all sides. The mob retaliated by assaults on monarchists and by burning churches.

Page 597

Italian Air Force planes were painted over and went into action in support of the revolt which was a failure when the navy remained loyal because the crews overthrew their officers; the Air Force remained loyal; the army revolted with much of the police but were overcome. At the first news of the revolt, the people, led by labor unions, demanded arms. Because arms were lacking, orders were sent at once to France. The recognized government in Madrid had the right to buy arms abroad and was even bound to do so by treaty with France.

As a result of the failure of the revolt, the generals found themselves isolated in several different parts of Spain with no mass popular support.

Page 598

The rebels held the extreme northwest, the north and the south as well as Morocco and the islands. They had the unlimited support of Italy and Portugal and tentative support from Germany.

The French suggested an agreement not to intervene in Spain since it was clear that if there was no intervention, the Spanish government could suppress the rebels. Britain accept the French offer at once but efforts to get Portugal, Italy, Germany and Russia into the agreement were difficult because Portugal and Italy were both helping the rebels. By August, all six Powers had agreed.

Efforts to establish some kind of supervision were rejected by the rebels and by Portugal while Britain refused to permit any restrictions to be placed on war material going to Portugal at the very moment when it was putting all kinds of pressure on France to restrict any flow of supplies to the recognized government of Spain. Portugal had delayed joining the agreement until it would hurt the Loyalist forces more than the rebels. Even then, there was no intention of observing the agreements.

Page 599

France did little to help the Madrid government while Britain was positively hostile to it. Both governments stopped all shipments of war material to Spain. By its insistence on enforcing non-intervention against the Loyalists, while ignoring the systematic and large-scale evasions of the agreement in behalf of the rebels, Britain was neither

fair nor neutral, and had to engage in large-scale violations of international law. Britain refuse to permit any restrictions to be placed on war material going to Portugal (to the rebels). It refused to allow the Loyalist Spanish Navy to blockade the seaports held by the rebels, and took immediate action against efforts by the Madrid government to interfere with any kind of shipments to rebel areas, while wholesale assaults by the rebels on British and other neutral ships going to Loyalist areas drew little more than feeble protests from Britain.

Britain was clearly seeking a rebel victory and instead of trying to enforce nonintervention, was actively supporting the rebel blockade of Loyalist Spain when the British Navy began, in 1937, to intercept British ships headed for Loyalist ports and on some pretext, or simply by force, made them go elsewhere.

The rebel forces were fewer than the Loyalists but were eventually successful because of their great superiority in artillery, aviation, and tanks as a result of the one-sided enforcement of the non-intervention agreement.

Page 600

The failure of Franco to capture Madrid led to a joint Italian-German meeting where it was decided to recognize the Franco government and withdraw their recognition from Madrid on Nov. 18, 1936. Japan recognized the Franco regime in December.

As a result, Franco received the full support of the aggressor states while the Loyalist government was obstructed in every way by the "peace-loving" Powers. Italy sent 100,000 men and suffered 50,000 casualties, Germany sent 20,000 men. On the other side, the Loyalists were cut off from foreign supplies almost at once because of the embargoes of the Great Powers and obtained only limited amounts, chiefly from Mexico, Russia and the US until the Non-intervention agreement cut these off. On Jan. 18, 1937, the American Neutrality Act was revised to apply to civil as well as international wars and was invoked against Spain immediately but unofficial pressure from the American government prevented such exports to Spain even earlier.

The Madrid government made violent protests against the Axis intervention both before the Non-intervention Committee in London and before the League of Nations. These were denied by the Axis Powers. An investigation of these charges was made under Soviet pressure but the Committee reported that these charges were unproved. Anthony Eden went so far to say that so far as non-intervention was concerned, "there were other governments more to blame tan either Germany or Italy."

Page 601

Soviet intervention began Oct 7,1936, three and a half years after Italian intervention and almost three months after both Italian and German units were fighting with the rebels. The Third International recruited volunteers throughout the world to fight in Spain. This Soviet intervention in support of the Madrid government at a time when it could find support almost nowhere else served to increase Communist influence in the government very greatly.

Page 602

The Italian submarine fleet was waiting for Russian shipping in the Mediterranean and did not hesitate to sink it in the last few months of 1936.

Although the evidence for Axis intervention in Spain was overwhelming and was admitted by the Powers themselves early in 1937, the British refused to admit it and refused to modify the non-intervention policy. Britain's attitude was so devious that it can hardly be untangled although the results were clear enough. The real sympathy of the London government clearly favored the rebels although it had to conceal the fact from public opinion since this opinion favored the Loyalists over Franco by 57% to 7% according to a 1938

opinion poll.
Page 603
     On December 18, 1936, Eden admitted that the government had exaggerated the danger of war four months earlier to get the non-intervention agreement accepted, and when Britain wanted to use force to achieve its aims, as it did in the piracy of Italian submarines in 1937, it did so without risk of war. The non-intervention agreement, as practiced, was neither an aid to peace nor an example of neutrality, but was clearly enforced in such a way as to give aid to the rebels and place all possible obstacles in the way of the Loyalist government suppressing the rebellion.
     The attitude of the British government could not be admitted publicly and every effort was made to picture the actions of the Non-intervention Committee as one of even-handed neutrality. In fact, it was used to throw dust in the eyes of the world, especially the British public. For months, the meaningless debates of this committee were reported in detail to the world and charges, countercharges, proposals, counterproposals, investigations and inconclusive conclusions were offered to the a confused world, thus successfully increasing its confusion. While debating and quibbling on about issues like belligerence, patrols, volunteers, etc., before the Committee in London, the Franco forces, with their foreign contingents, slowly crushed the Loyalist forces.
Page 604
     The Loyalist forces surrendered on March 28th 1939. England and France had recognized the Franco government on February 17 and the Axis troops were evacuated from Spain after a triumphal march through Madrid in June.
     When the war ended, much of Spain was wrecked, at least 450,000 Spaniards had been killed and an unpopular military dictatorship had been imposed as a result of the actions of non-Spanish forces. At least 400,000 Spaniards were in prison and large numbers were hungry and destitute. Germany recognized this problem and tried to get France to follow a path of conciliation, humanitarian reform, and social, agricultural, and economic reform. This advice was rejected, with the result that Spain has remained weak, apathetic, war-weary, and discontented ever since.

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AUSTRIA INFELIX, 1933-1938
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     The Austria which was left after the Treaty of St. Germain consisted of little more than the great city of Vienna surrounded by a huge but inadequate suburb whose population had been reduced from 52 to 6.6 million.
Page 608

The Social Democrats were unable to reconcile their desire for union with Germany (called Anschluss) with the need for financial aid from the Entente Powers who opposed this.

The Social Democrats embarked on an amazing program of social welfare by a system of direct taxes which bore heavily on the well-to-do.

Page 609

Before 1914, the living conditions of the poor had been maintained by a very undemocratic political system under which only 83,000 persons, on a property basis, were allowed to vote and 5,500 of the richest were allowed to choose one-third of all seats on city council. By 1933, the Social Democrats had built almost 60,000 dwellings so efficiently that the average cost per apartment was only about $1,650 each with average rent of $2 per month. Thus the poor of Vienna had all kinds of free or cheap medical care, dental care, education, libraries, amusements, sports, school lunches and maternity care provided by the city.

While this was going on in Vienna, the Christian Socialist-Pan-German federal government of Catholic priest Monsignor Ignaz Seipel was sinking deeper into corruption, The diversion of public funds to banks and industries controlled by Seipel's supporters was revealed by parliamentary investigations in spite of the government's efforts to conceal the facts.

Seipel formed a "Unity List" of all the anti-Socialist parties he could muster but the election gave his party only 73 seats compared to 71 for the Social Democrats, 12 for the pan-Germans, 9 for the Agrarian League. He sought to change the Austrian constitution into a presidential dictatorship which required a two-thirds vote. It became necessary to use illegal methods.

Page 610

The secret documents published since 1945 make it quite clear that Germany had no carefully laid plans to annex Austria and was not encouraging violence by the Nazis in Austria. Instead, every effort was made to restrict the Austrian Nazis to propaganda in order to win a gradual peaceful extension of Nazi influence.

Page 611

The invasion of Austria in 1938 was a pleasant surprise even for the Nazi leaders and arose from several unexpected favorable circumstances. Secret documents now make it clear that in 1937 the German and British governments made secret decisions which sealed the fate of Austria and Czechoslovakia. It is evident from some of Hitler's statements that he had already received certain information about the secret decisions being made by Chamberlain on the British side.

Page 612

The British government group controlling foreign policy had reached a seven point decision regarding Germany:

1. Hitler's Germany was the front-line bulwark against the spread of Communism in Europe.
2. The aim was a four power pact including Britain, France, Italy and Germany to exclude all Russian influence from Europe.
3. Britain had no objection to German acquisition of Austria, Czechoslovakia, and Danzig.
4. Germany must not use force to achieve its aims as this would precipitate a war in which Britain would have to intervene.

Page 622

For years before June 1938, the government insisted that British rearming was progressing in a satisfactory fashion. Churchill questioned this and produced figures on German rearmament to prove that Britain's own progress in this field was inadequate. These

figures (which were not correct) were denied by the government. As late as March 1938, Chamberlain said that British rearmament were such as to make Britain an "almost terrifying power." But as the year went on, the government adopted a quite different attitude. In order to persuade public opinion that it was necessary to yield to Germany, the government pretended that its armaments were quite inadequate.
Page 623

We now know that this was a gross exaggeration. Britain produced almost 3000 "military" planes in 1938 and about 8,000 in 1939 compared to 3350 "combat" planes produced in Germany in 1938 and 4,733 in 1939.

It is quite clear that Britain did not yield to superior force in 1938, as was stated at the time and has been stated since by many writers including Churchill. We have evidence that Chamberlain knew these facts but consistently gave a contrary impression and that Lord Halifax went so far as to call forth protests from the British military attaches in Prague and Paris.

The British government made it clear to Germany both publicly and privately that they would not oppose Germany's projects. Dirksen wrote to Ribbentrop on June 3 1928 "Anything which could be got without firing a shot can count upon the agreement of the British."
THE CZECHOSLOVAK CRISIS, 1937-1938
Page 626

The economic discontent became stronger after the onset of the world depression in 1929 and especially after Hitler demonstrated that his policies could bring prosperity to Germany.
Page 627

Within two weeks of Hitler's annexation of Austria, Britain put pressure on the Czechs to make concessions to the Germans; to encourage France and Germany to do the same. All this was justified by the argument that Germany would be satisfied if it obtained the Sudetenland and the Polish Corridor. All these assumptions were dubious.
Page 628

Czechoslovakia was eliminated with the help of German aggression, French indecision and war-weariness, and British public appeasement and merciless secret pressure.
Page 629

Five days after Anschluss, the Soviet government call for collective actions to stop aggression and to eliminate the increased danger of a new world slaughter was rejected by Lord Halifax.
Page 633

It was necessary to impose the plan for Czechoslovakia on public opinion of the world by means of the slowly mounting war scare which reached the level of absolute panic on September 28th. The mounting horror of the relentless German mobilization was built up day by day while Britain and France ordered the Czechs not to mobilize in order "not to provoke Germany."

We now know that all these statements and rumors were not true and that the British government knew that they were not true at the time.
Page 634

The Chamberlain government knew these facts but consistently gave a contrary impression. Lord Halifax particularly distorted the facts.

Just as the crisis was reaching the boiling point in September 1938, the British ambassador in Paris reported to London that Colonel Lindbergh had just emerged from Germany with a report that Germany had 8,000 military planes and could manufacture 1,500 a month. We now know that Germany had about 1,500 planes, manufactured 280 a month.
Page 635

Lindbergh repeated his tale of woe daily both in Paris and in London during the crisis. The British government began to fit the

people of London with gas masks, the prime minister and the king called on the people to dig trenches in the parks, schoolchildren began to be evacuated. In general, every report or rumor which could add to the panic and defeatism was played up, and everything that might contribute to a strong or a united resistance to Germany was played down.

Page 636

The Anglo-French decision was presented to the Czechoslovak government at 2a.m. on September 19 to be accepted at once. The Czechoslovak government accepted at 5p.m. on September 21st. Lord Halifax at once ordered the Czech police to be withdrawn from the Sudeten districts, and expressed the wish that the German troops move in at once.

Page 638

At Munich, Hitler, Chamberlain, Mussolini and Daladier carved up Czechoslovakia without consulting anyone, least of all the Czechs. Germany was supreme in Europe. Since this was exactly what Chamberlain and his friends had wanted, they should have been satisfied.

THE YEAR OF DUPES, 1939

Page 642

Concessions to Germany continued but now parallel with concessions went a real effort to build up a strong front against Hitler.

Page 643

The anti-Bolshevik and "three-bloc-world" groups had expected Hitler would get the Sudetenland, Danzig, and perhaps the Polish Corridor and that he would then be stabilized between the "oceanic bloc" and the Soviet Union.

As a result of these hidden and conflicting forces, the history of international relations from September 1938 and September 1939 or even later is neither simple nor consistent. In general, the key to everything was the position of Britain. As a result of Lord Halifax's "dyarchic" policy, there were not only two policies but two groups carrying them out. Lord Halifax tried to satisfy the public demand for an end to appeasement while Chamberlain, Wilson, Simon and Hoare sought to make secret concessions to Hitler in order to achieve a general Anglo-German settlement. The one policy was public; the other was secret. Since the Foreign Office knew of both, it tried to build up the "peace front" against Germany so that it would look sufficiently imposing to satisfy public opinion and to drive Hitler to seek his desires by negotiation rather than by force so that public opinion in England would not force the government to declare a war that they did not want in order to remain in office. This complex plan broke down because Hitler was determined to have a war merely for the personal emotional thrill of wielding great power, while the effort to make a "peace front" sufficiently collapsible so that it could be case aside if Hitler either obtained his goals by negotiation or made a general settlement with Chamberlain merely resulted in making a "peace front" which was so weak it could neither maintain peace by threat of force nor win a war when peace was lost.

Page 644

On March 15th, Chamberlain told the Commons that he accepted the seizure of Czechoslovakia and refused to accuse Hitler of bad faith. But two days later, when the howls of rage from the British public showed that he had misjudged the electorate, he denounced the seizure. However, nothing was done other than to recall Henderson from Berlin for consultations and cancel a visit to Berlin by the president of the Board of Trade. The seizure was declared illegal but was recognized in fact at once. Moreover, #6 million in Czech gold reserves in London were turned over to Germany with the puny and untrue excuse that the

British government could not give orders to the Bank of England.

Page 647

Germany opened its negotiations with Poland in a fairly friendly way on October 24, 1938. It asked for Danzig and a strip a kilometer wide across the Polish Corridor to provide a highway and four-track railroad under German sovereignty. Poland's economic and harbor rights in Danzig were to be guaranteed and the "corridor across the Corridor" was to be isolated from Polish communications facilities by bridging or tunneling. Germany also wanted Poland to join an anti-Russian bloc. Germany was prepared to guarantee the country's existing frontiers, to extend the Non-aggression Pact of 1934 for 25 years, to guarantee the independence of Slovakia and to dispose of Ruthenia as Poland wished. These suggestions were rejected by Poland. About the same time, the Germans were using pressure on Romania to obtain an economic agreement which was signed on March 23rd.

On March 17, London received a false report of a German ultimatum to Romania. Lord Halifax lost his head and, without checking his information, sent telegrams to Greece, Turkey, Poland, Bulgaria, Soviet Union asking what each country was prepared to do in the event of a German aggression against Romania. Four replied by asking London what it was prepared to do but Moscow suggested and immediate conference which Halifax rebuffed, wanting nothing more than an agreement to consult in a crisis. Poland was reluctant to sign any agreement involving Russia. However, when news reached London of Hitler's demands on Poland, Britain suddenly issued a unilateral guarantee of the latter state (March 31st).

Page 648

"In the event of any action which clearly threatened Polish independence and which the Polish government accordingly considered it vital to resist with their national forces, His Majesty's Government would feel themselves bound at once to lend the Polish Government all support in their power."

This was an extraordinary assurance. The British government since 1918 had resolutely refused any bilateral agreement guaranteeing any state in western Europe. Now they were making a "unilateral" declaration in "eastern" Europe and they were giving that state the responsibility of deciding when that guarantee would take effect, something quite unprecedented. If Germany used force in Poland, public opinion in Britain would force Britain to declare war whether there was a guarantee or not.

If the chief purpose of the unilateral guarantee to Poland was to frighten Germany, it had precisely the opposite effect.

Page 649

Hitler announced that the terms he had offered Poland had been rejected, negotiations broken off. The crisis was intensified by provocative acts on both sides.

Page 650

In 1939, there was talk of a British loan to Poland of #100 million in May; On August 1 Poland finally got a credit for $8 million at a time when all London was buzzing about a secret loan of #1 billion from Britain to Germany.

In 1936, Poland was given 2 billion francs as a rearmament long and on May 19, 1939, an agreement was signed by which France promised full air support to Poland on the first day of war, local skirmishing by the third day, and a full-scale offensive on the sixteenth day. On Aug. 23, General Gamelin informed his government that no military support could be given to Poland until the spring of 1940 and that a full-scale offensive could not be made before 1941-1942. Poland was never informed of this change and seems to have entered the war on September 1st in the belief that a full-scale offensive would be made

against Germany during September.

The failure to support Poland was probably deliberate in the hope that this would force Poland to negotiate with Hitler. If so, it was a complete failure. Poland was so encouraged by the British guarantee that it not only refused to make concessions but also prevented the reopening of negotiations by one excuse after another until the last day of peace.

Page 651

In light of these facts, the British efforts to reach a settlement with Hitler and their reluctance to make an alliance with Russia, were very unrealistic. Nevertheless, they continued to exhort the Poles to reopen negotiations with Hitler, and continued to inform the German government that the justice of their claims to Danzig and the Corridor were recognized but that these claims must be fulfilled by peaceful means and that force would inevitably be met with force.

The British continued to emphasize that the controversy was over Danzig when everyone else knew that Danzig was merely a detail, and an almost indefensible detail. Danzig was no issue on which to fight a world war, but it was an issue on which negotiation was almost mandatory. This may have been why Britain insisted that it was the chief issue. But because it was not the chief issue, Poland refused to negotiate because it feared it would lead to partition of Poland. Danzig was a free city under supervision of the League of Nations and while it was within the Polish customs and under Polish economic control, it was already controlled politically under a German Gauleiter and would at any moment vote to join Germany if Hitler consented.

Page 654

Lord Halifax's report reads: "Herr Hitler asked whether England would be willing to accept an alliance with Germany. I said I did not exclude such a possibility provided the development of events justified it."

The theory that Russia learned of these British approaches to Germany in July 1939 is supported by the fact that the obstacles and delays in the path of a British-Russian agreement were made by Britain from the middle of April to the second week of July but were made by Russia from the second week in July to the end on August 21st.

The Russians probably regarded the first British suggestion that the Soviet Union should give unilateral guarantees to Poland similar to those of Britain as a trap to get them into a war with Germany in which Britain would do little or nothing or even give aid to Germany. That this last possibility was not completely beyond reality is clear from the fact that Britain did prepare an expeditionary force to attack Russia in March 1940 when Britain was technically at war with Germany but was doing nothing to fight her.

Russia offered the guarantee if it were extended to all states on their western frontier including Finland, Estonia, Latvia, Lithuania, Poland and Romania. This offer meant that Russia was guaranteeing its renunciation of all the territory in these six states which it had lost to them since 1917.

Instead of accepting the offer, the British began to quibble. They refused to guarantee the Baltic States on the ground that these states did not want to be guaranteed although they had guaranteed Poland on March 31st when Jozef Beck did not want it and had just asked the Soviet Union to guarantee Poland and Romania, neither of whom wanted a Soviet guarantee. When the Russians insisted, the British countered by insisting that Greece, Turkey, Holland, Belgium, and Switzerland must also be guaranteed.

Page 655

France and Russia were both pushing Britain to form a Triple

Alliance but Britain was reluctant and delayed the discussions to the great irritation of the Soviet leaders. To show its displeasure, the Soviet Union on May 3rd replaced Litvinov with Molotov as foreign minister. This would have been a warning, Litvinov knew the West and was favorable to democracy and to the Western Powers. As a Jew, he was anti-Hitler. Molotov was a contrast from every point of view.

On May 19th, Chamberlain refused an alliance and pointed with satisfaction to "that great virile nation on the borders of Germany which under this agreement (of April 6th) is bound to give us all the aid and assistance it can." He was talking about Poland!

Page 656

The members of the military mission took a slow ship (speed thirteen knots) and did not reach Moscow until August 11th. They were again negotiators of second rank. In London, according to rumor, neither side wanted an agreement. Considering Chamberlain's secret efforts to make a settlement with Germany, there is no reason to believe that he wanted an agreement with Russia.

The Russians demanded an exact military commitment as to what forces would be used against Germany; they wanted guarantees whether the states concerned accepted or not; they wanted specific permission to fight across a territory such as Poland. These demands were flatly rejected by Poland on August 19th. On the same day, Russia signed a commercial treaty with Germany. Two days later, France ordered its negotiators to sign the right to cross Poland but Russia refused to accept this until Poland consented as well.

Page 657

On Aug. 23, Ribbentrop and Molotov signed an agreement which provided that neither signer would take any aggressive action against the other signer or give any support to a third Power in such action. The secret protocol delimited spheres of interest in eastern Europe. The line followed the northern boundary of Lithuania and the Narew, Vistula, and San rivers in Poland and Germany gave Russia a free hand in Bessarabia. This agreement was greeted as a stunning surprise in the Entente countries. There was no reason why it should have been.

The British begged the Poles and the Germans to negotiate; the Italians tried to arrange another four-Power conference; various outsiders issued public and private appeals for peace; secret emissaries flew back and forth between London and Germany.

All this was in vain because Hitler was determined on war and his attention was devoted to manufacturing incidents to justify his approaching attack. Political prisoners were taken from concentration camps, dressed in German uniforms, and killed on the Polish frontier as "evidence" of Polish aggression. A fraudulent ultimatum with sixteen superficially reasonable demands on Poland was presented to the British ambassador when the time limit had elapsed. It was not presented to the Poles because the Polish ambassador in Berlin had been ordered by Beck not to accept any document from the Germans.

Page 658

The German invasion of Poland at 4:45a.m. on September 1, 1939, did not end the negotiations to make peace, nor did the complete collapse of Polish resistance on September 16. Since these efforts were futile, little need be said of them except that France and Britain did not declare war on Germany until more than two days had elapsed. During this time, no ultimatums were sent to Germany. On September 3 at 9a.m., Britain presented an ultimatum which expired at 11a.m. In a similar fashion, France entered the war at 6p.m. on September 3.

CHAPTER XIV: WORLD WAR II: THE TIDE OF AGGRESSION, 1939-1941

Page 661

The Second World War lasted exactly six years. It was fought on

every continent and on every sea. Deaths of civilians exceeded deaths of combatants and many of both were killed without any military justification as victims of sheer brutality, largely through cold-blooded savagery by Germans, and to a lesser extent by Japanese and Russians, although British and American attacks from the air on civilian populations and on non-military targets contributed to the total. The distinctions between civilians and military personnel and between neutrals and combatants which had been blurred in the First World War were almost completely lost in the second. Civilians killed reached 17 millions.

The armies had no new weapons which had not been possessed in 1918 but the proportions of these and the ways in which they cooperated with one another had been greatly modified.

Page 662

The chief reason the Germans had sufficient military resources was not based, as is so often believed, on the fact that Germany was highly mobilized for war, but on other factors. In the first place, Hitler's economic revolution in Germany had reduced financial considerations to a point where they played no role in economic or political decisions. When decisions were made, on other grounds, money was provided through completely unorthodox methods of finance, to carry them out. In France and England, on the other hand, orthodox financial principles, especially balanced budgets and stable exchange rates, played a major role in all decisions and was one of the chief reasons why these countries did not mobilize or why, having mobilized, they had totally inadequate numbers of airplanes, tanks, etc.

Page 665

Strategic bombing used long-range planes against industrial targets and other civilian objectives. The upholders of strategic bombing received little encouragement in Germany, in Russia, or even in France.

THE BATTLE OF POLAND, SEPTEMBER 1939

Page 667

Although Britain and France declared war on Germany on September 3rd 1939, it cannot be said that they made war during the next two weeks in which fighting raged in Poland. British airplanes roamed over Germany, dropping leaflets for propaganda purposes but no support was given to Poland. No attack was made by France and strict orders were issued to the British Air Force not to bomb any German land forces until April 1940. Similar orders to the Luftwaffe by Hitler were maintained for part of this same period. When some British Members of Parliament put pressure to drop bombs on German munition stores in the Black Forest, Sir Kingsley Wood rejected the suggestion declaring: "Are you aware it is private property? Why, you will be asking me to bomb Essen next." Essen was the home of Krupp Munitions factories.

Blockade of Germany was established in such a perfunctory fashion that large quantities of French iron ore continued to go to Germany through the neutral Low Countries in return for German coal coming by the same route. Hitler issued orders to his air force not to cross the Western frontier except for reconnaissance, to his navy not to fight the French, and to his submarines not to molest passenger vessels and to treat unarmed merchant ships according to established rules of international prize law. In open disobedience of these orders, a German submarine sank the liner Athenia on September 3rd.

The Soviet Union was invited by Hitler to invade Poland from the east and occupy the areas which had been granted to it in the Soviet-German agreement of August 23rd. The Russians were afraid the Western Powers might declare war on Russia in support of their guarantee to Poland.

When the Polish government moved to Romania, the Soviet Union felt that it could not be accused of aggression against Poland if no

Polish state still existed on Polish soil and justified their advance with the excuse that they must restore order. On September 28, the divided Poland between them.

THE SITZKRIEG, September 1939 - May 1940

Page 668

The period from the end of the Polish campaign to the German attack on Denmark and Norway on April 9, 1940 is frequently called the Sitzkrieg (sitting war) or even "phony war" because Western powers made no real effort to fight Germany, eager to use the slow process of economic blockade.

Early in October, Hitler made a tentative offer to negotiate peace with the Western Powers on the grounds that the cause of fighting for Poland no longer existed. This offer was rejected by the Western Powers with the public declaration that they were determined to destroy Hitler's regime. This meant that war must continue. The British and French answers were not based on a desire to continue war but more on the belief that Hitler's rule in Germany was insecure and that the best way to reach peace would be to encourage some anti-Hitler movement within Germany itself.

Page 669

Germany was vulnerable to a blockade but there was no real effort toward economic mobilization by Germany before 1943. Contrary to general opinion, Germany was neither armed to the teeth nor fully mobilized in this period. In each of the four years 1939-1942, Britain's production of tanks, self-propelled guns, and planes was higher tan Germany's. As late as September 1941, Hitler issued an order for substantial reduction in armaments production. In 1944, only 33% of Germany's output went for direct war purposes compared to 40% in the U.S. and almost 45% in Britain.

Page 671

In order to reduce the enemy's ability to buy abroad, financial connections were cut, his funds abroad were frozen, and his exports were blocked. The U.S. cooperated as well, freezing the financial assets of various nations as they were conquered by the aggressor Powers and finally the assets of the aggressors themselves in June 1941.

At the same time, pre-emptive buying of vital commodities at their source to prevent Germany and its allies from obtaining them began. Because of limited British funds, most of this task of pre-emptive buying was taken over by the U.S., almost completely by Feb. 1941.

The blockade was enforced by Britain with little regard for international law or for neutral rights there was relatively test from the neutrals. The U.S. openly favored Britain while Italy and Japan equally openly favored Germany. On the whole, the blockade had no decisive effect on Germany's ability to wage war until 1945. Germany's food supply was at the pre-war level until the very last months of the war by starving the enslaved peoples of Poland, Czechoslovakia, Russia and other countries.

Page 674

During the "phony war" there were persons in Britain, France and Germany who were eager to make war or peace. Such persons engaged in extensive intrigues in order to negotiate peace or to prevent it. There were a number of unsuccessful efforts to make peace between the Western Powers and Germany in the six months following the defeat of Poland.

Page 677

Hitler had no political ambition with respect to the Balkans or the Soviet Union. From both he wanted nothing more than the maximum supply of raw materials and a political peace which would permit these

goods to flow.
Page 679
It is not yet clear why Finland rejected the Russian demands of October 1939. The Germans and Russians believed that it was done under British influence. For some unexplained reason the Finns seem to have felt that the Russians would not attack their country but the Soviets attacked at several points November 29th.

Page 680
In early 1939, the Anglo-French leaders now prepared to attack the Soviet Union both from Finland and from Syria. On February 5, 1940, the Supreme War Council decided to send to Finland an expeditionary force of 100,000 heavily armed troops to fight the Soviet hordes. Germany at once warned Norway and Sweden that it would take action against them if the two Scandinavian countries permitted passage of this force. Germany feared the Anglo-French forces would be able to stop shipments of Swedish iron ore across Norway to Germany. The evidence supports these fears because the high quality of Swedish iron ore was essential to the German steel industry. As early as September 1939, the British were discussing a project to interrupt the Swedish shipments either by an invasion of Norway of by mining Norwegian territorial waters. When Germany heard of the Anglo-French expeditionary force, it began to prepare its own plans to seize Norway first.
THE FALL OF FRANCE (MAY-JUNE 1940) AND THE VICHY REGIME.
Page 690
Hitler was so convinced that Britain would also make peace that he gave lenient terms to France. France did not give up any overseas territories or any ports on the Mediterranean, no naval vessels or any airplanes or armaments. Northern France and all the western coast to the Pyrenees came under occupation but the rest was left unoccupied, ruled by a government free from direct German control.
Page 698
Operation Barbarossa was based on the consideration that only by destroying Russia and all Britain's hopes based on Russia could Britain be forced to ask for peace.
AMERICAN NEUTRALITY AND AID TO BRITAIN
Page 707
In buying supplies, chiefly from the U.S., Britain had used up, by June 1941, almost two-thirds of its dollars assets, gold stocks, and marketable U.S. certificates.
When the war began, American public opinion was united in its determination to stay out. The isolationist reaction following American intervention in the First World War had become stronger in the 1930s. Historian were writing extensively to show that Germany had not been solely guilty of beginning the war in 1914 and that the Entente Powers had made more than their share of secret treaties seeking selfish territorialism, both before the war and during the fighting.
In 1934, a committee of the U.S. Senate investigated the role played by foreign loans and munition sales to belligerents in getting the U.S. involved in World War I. Through the carelessness of the Roosevelt administration, this committee fell under the control of isolationists led by Republican Senator Gerald Nye. As a result, the evidence was mobilized to show that American intervention in WWI had been pushed by bankers and munitions manufacturers ("merchants of death") to protect their profits and their interests in an Entente victory. American public opinion had the uncomfortable feeling that American youths had been sent to die for selfish purposes concealed behind propaganda slogans about "the rights of small nations," "freedom of the seas," or "making the world safe for democracy." All

this created a widespread determination to keep out of Europe's constant quarrels and avoid what was regarded as the "error of 1917."
Page 708

The isolationist point of view had been enacted into the so-called Neutrality Act curtailing loans and munitions sales to belligerent countries. Materials had to be sold on a "cash and carry" basis and had to be transported on foreign ships. Also, loans to belligerents were forbidden.

These laws gave a great advantage to a state like Italy which had ships to carry supplies from the U.S. or which had cash to buy them here in contrast to a country like Ethiopia which had no ships and little cash.
Page 709

Roosevelt called a special session of Congress to revise the neutrality laws so that the Entente powers could obtain supplies in the U.S. The embargo on munitions was repealed. American ships were not to be armed, to carry munitions, or to go to any areas the President had proclaimed as combat zones.

The extremes ranged from the advocates of immediate intervention into the war on the side of Britain to the defenders of extreme isolation. Most American opinion was somewhere between the two extremes.

In order to unify America's political front, Roosevelt took two interventionists into his cabinet as Secretaries of War and the Navy. Roosevelt himself was sympathetic to this point of view.
Page 710

Wendell Wilkie assured the American people that Roosevelt's re-election in 1940 meant that "we will be at war." Roosevelt replied with assurances that "We will not sent our army, navy, or air forces to fight in foreign lands except in case of attack. Your boys are not going to be sent into any foreign wars." This campaign oratory was based on the general recognition that the overwhelming majority were determined to stay out of war.
Page 711

Strategic plans were drawn up deciding that Germany was the major danger, with Japan of secondary importance, and that every effort, including actual warfare, should be used. Germany's declaration of war on the U.S. four days after Pearl Harbor saved the U.S. from the need to attempt something which American public opinion would have never condoned, an attack on Germany after we had been attacked by Japan.
Page 714

Roosevelt improvised a policy which consisted in almost equal measure of propagandist public statements, tactical subterfuges, and hesitant half-steps. In September 1940, Roosevelt gave fifty old WWI destroyers to Britain in return for 99 year leases of naval and air bases in this hemisphere.
Page 715

Loans were forbidden by the Neutrality Act. To Roosevelt, it seemed foolish to allow monetary considerations to stand as an obstacle in the way of self-defence (as he regarded the survival of Great Britain).
Page 716

Opponents argued that Britain had tens of billions in concealed assets and that Lend-Lease was merely a clever trick for foisting the costs of Britain's war onto the backs of American tax-payers. Still others insisted that Lend-Lease was an unneutral act which would arouse German rage and eventually involved the American people in a war they had no need to get in. The bill passed and provided that the president could "sell, transfer title to, exchange, lease, lend, or dispose of any defence article" to any nation whose defence he found vital to the defence of the U.S.

Page 717

Behind this whole effort toward economic mobilization was a secret decision of Roosevelt's military advisers in 1941 that the war could not be won unless the U.S. planned eventually to raise the number of men in its armed forces to eight million. At once, isolationists were in full cry and an ACt extending selective-service training passed 203-202.

Page 718

The British had no plans for an invasion of Europe and hoped that Germany could be worn down by blockade. No one pointed out that a Germany defeat by British methods would leave the Soviet armies supreme in all Europe with no forces to oppose them.

Page 719

At the same time he gave Britain ten coast-guard cutters, Roosevelt seized possession of 65 Axis and Danish ships in American harbors. The financial assets of the Axis Powers were frozen. American flying schools were made available to train British aviators. By presidential proclamation, the American Neutrality Zone was extended to Iceland. The U.S. navy was ordered to follow all Axis raiders or submarines west of this meridian broadcasting their positions to the British.

Page 720

American naval escort of British convoys could not fail to lead to a "shooting war" with Germany. The Roosevelt administration did not shrink from this possibility. Fortunately for the Administration's plans, Hitler played right into its hands by declaring war on the U.S. By that date, incidents were becoming more frequent.

On Oct. 17, the U.S. destroyer Kearney was torpedoed; two weeks later, the destroyer Rueben James was blown to pieces. On Nov. 10, an American escort of 11 vessels picked up a convoy of six vessels including America's three largest ocean liners with 20,000 British troops and guarded them from Halifax to India and Singapore.

Many of the activities of the American Navy in the summer of 1941 were known not at all or were known only very imperfectly to they American public but it would seem that public opinion generally supported the Administration's actions. In September, Roosevelt sought to repeal the Neutrality Act forbidding the arming of merchant vessels which was done on Oct. 17. Two weeks later, all the essential points of the Neutrality Act were repealed. This meant that open warfare with Germany was in the immediate future.

THE NAZI ATTACK ON SOVIET RUSSIA 1941-1942

Page 725

Large numbers of anti-Stalinist Russians began to surrender to the Nazis. Most of these were Ukranians and eager to fight with the Nazis against the Stalinist regime. Anti-Stalinist deserters serving in the Nazi forces reached 900,000 in June 1944 under Soviet general A. A. Vlasov. At the end of the war, hundreds of thousands of Vlasov's supporters fled westward to the American and British armies for refuge from Stalin's vengeance but were handed over to the Soviet Union to be murdered out of and or sent to slave-labor camps in Siberia. The dimensions of the human suffering involved in this whole situation is beyond the human imagination.

CHAPTER XV: WORLD WAR II: THE EBB OF AGGRESSION,1941-1945

THE RISING SUN IN THE PACIFIC, TO 1942

PAGE 732

Japanese aggressions of 1941 which culminated in the attack on Pearl Harbor were based on fear and weakness and not on arrogance and strength.

By 1939, the Japanese economy was beginning to totter under the

growing restrictions on Japanese trade imposed by Western countries and acute material shortages. Problems such as these might have driven many nations, even the West, to desperate action.

The world depression made it very difficult to increase Japanese exports. The excessively high American tariff, although no so intended, seemed to the Japanese to be an aggressive restriction on their ability to live. The "imperial preference" regulations of the British Commonwealth had a similar consequence. Since Japan could not defend itself against such economic measures, it resorted to political measures and the Western Powers would inevitably defend themselves with even greater economic restrictions driving Japan to open war.

Page 735

The American government began to tighten the economic pincers on Japan just as Japan was seeking to tighten its military pincers on China. Japan was able to close all routes to China. The American government retaliated with economic warfare. In 1938, it established a "moral embargo" on the shipment of aircraft or their parts and bombs to Japan. In 1939, large U.S. and British loans to China sought to strengthen its collapsing financial system and Washington gave notice to cancel the 1911 commercial treaty with Japan opening the door to all kinds of economic pressure. The "moral embargo" was extended to cover light metals and all machinery or plans for making aviation gasoline.

Such a policy was opposed by isolationists insisting such economic sanctions could only be enforced, in the long run, by war. If Japan could not get petroleum, bauxite, rubber and tin by trade, it could be prevented from seizing these areas producing these products only by force. To avoid this obvious inference,l Cordell Hull sought to make America's economic policy ambiguous so that Japan might be deterred by fear of sanctions not yet imposed and won by hopes of concessions not yet granted. Such a policy was a mistake but it obtained Roosevelt's explicit approval since it allowed more aggressive elements of Japanese to take control and any drastic action seeking to end the strain became welcome.

Page 736

The ambiguity of American commercial policy slowly resolved in the direction of increasing economic sanctions. There was a steady increase in America's economic pressure by the growth of financial obstacles and by increasing purchasing difficulties.

From Hull's doctrinaire refusal to encourage any Japanese hope that they could win worthwhile American concessions, the advocates of extremism gained influence.

The President ordered the embargo of many goods which Japan needed, including aluminum, airplane parts, all arms and munitions, optical supplies, and various "strategic" materials but left petroleum and scrap iron unhindered.

Page 737

American diplomatic pressure on Japan must be timed to avoid pushing Japan into desperate action before American-German relations had passed the breaking point.

Page 739

On July 26, 1941, the U.S. froze all Japanese financial assets in the U.S. virtually ending trade between the two countries. Members of the British Commonwealth issued similar orders. As a result of these pressures, Japan found itself in a position where its oil reserves would be exhausted in two years, its aluminum reserves in seven months. The chief of the Navy told the emperor that if Japan resorted to war, it would be very doubtful that it could win. It was also clear that if war came, economic pressure was too damaging to allow Japan to postpone such operations until 1942. The decision was made to negotiate until late October. If an agreement could be reached, the

preparations for war could be suspended, otherwise the negotiations would be ended and the advance to open war continued. The Cabinet sought desperately to reach an agreement in Washington.

Page 741

The Japanese misjudged American psychology. Nomura found it impossible to reach an agreement because Hull's demands were extreme. The Americans had broken the secret Japanese codes and knew that war would begin if Nomura failed to obtain relaxation of the economic embargo. They did not however have the plans for the attack on Pearl Harbor.

Page 742

On November 27th, a war warning was sent from Washington to Pearl Harbor but no increased precautions were made. On December 7, an army enlisted man, using radar, detected a group of strange planes coming down from the north 132 miles away but his report was disregarded. The American losses included 2,400 killed, 1,200 injured. Japanese losses amounted to a couple of dozen planes.

TURNING THE TIDE, 1942-1943

Page 751

At Casablanca, the political decision of Roosevelt and Churchill on unconditional surrender was published with great fanfare, and at once initiated a controversy which still continues based on the belief that it had an adverse influence by discouraging any hopes within Axis countries that they could find a way out by slackening their efforts, by revolting against their governments, or by negotiations seeking some kind of of "conditional" surrender. There seems little doubt that it solidified our enemies and prolonged their resistance where opposition to the war was widespread and active.

Page 754

In May 1943, Sicily was overrun and in September,Italy surrendered and the German armies were pushed backward from eastern Europe. Major decisions were made in 1943 which played a major role in determining the nature of the postwar world.

Page 757

Although Soviet demands were clearly in conflict with the high purposes of the Atlantic charter, Churchill was not averse to accepting them on the grounds of physical necessity but American objections to discussions of territorial questions while the war was still going on forced him to refuse Stalin's requests. The British found themselves between the high and proclaimed principles of the Americans and the low and secret interests of the Russians.

At the American centers of power, there was complete conviction in the value of unrestricted aid to Russia. These aims were embraced by men like Harry Hopkins, General Marshall, and Roosevelt himself.

Page 760

The Americans decided to choke off the Italian offensive in order to concentrate on the cross-channel attack. The attack on North Africa was a substitute for an attack on Germany from Italy.

Page 762

Once ashore, the Sicilian campaign was ineptly carried on because occupation of territory was given precedence over destruction of the enemy. No efforts were made to close the Straits of Messina so the Germans were able to send almost two divisions as reinforcements from Italy and later, when the island had to be abandoned, they were equally free to evacuate it in seven days without the loss a man.

Page 763

The history of Italy in 1943 is a history of lost opportunities. Italy might have got out in the summer and the Germans might have been ejected shortly afterward. Instead, Italy was torn to pieces and got out of the war so slowly that Germans were still fighting on Italian

soil at the final surrender in 1945.

These great misfortunes were the result of a number of forces:
1) weakness of Italy relative to Germany;
2) weakness of Allies after diversion of power to Britain;
3) mistrust of Italians by Allies;
4) the inflexible Allied insistence on unconditional surrender which left the Italians helpless to resist the Germans.

Page 764

When the Italian government offered the join the Allies in fighting the Germans, they insisted that the publication of the armistice and a tentative paratrooper drop in Rome be put off until sufficient Allied forces were within striking distance to protect the city from the German troops nearby. Eisenhower refused and published the Italian surrender one day before the American Army landed at Salerno. The Germans reacted to the news of the Italian "betrayal" with characteristic speed. Available forces converged on the Salerno beachhead, an armored division fought its way into Rome, Italian troops were disarmed everywhere, and the Italian government had to flee. Numerous vessels were sunk by the Germans.

Page 765

As Allied forces slowly recovered Italian territory from the tenacious grasp of the Germans, the royal government remained subservient to its conquerors. Civilian affairs were completely in military hands under and organization known as Allied Military Government of Occupied Territories. The creation of these organizations on a purely Anglo-American basis,to rule the first Axis territory to be "liberated" became a very important precedent for Soviet behavior wen their armies began to occupy enemy territory in eastern Europe who were able to argue that they could exclude Anglo-Americans from active participation in military government in the east since they had earlier been excluded in the west.

While these political events were taking place, the military advance was moving like a snail. The Allied invasion of Italy was given very limited resources for a very large task.. It was only under such limitations of resources, explicitly stated, that the Americans accepted the British suggestion for an invasion of Italy at all.

Page 767

It was suggested that German success in holding the Rapido was due to the accuracy of their artillery fire and that this was was being spotted from the ancient monastery founded by St. Benedict in 529 A.D. on the top of Monte Cassino. It was further suggested that General Clark should have obliterated the monastery with aerial bombardment but had failed to do so because he was a Roman Catholic. After Feb. 15, 1944, General Clark did destroy the site completely without helping the situation a bit. We now know that the Germans had not been using the monastery; but once it was destroyed by us, they dug into the rubble to make a stronger defence.

On May 16th, a Polish Division captured Monte Cassino.

Page 770

Efforts to create a new Polish army were hampered by the fact that about 10,000 POlish officers along with 5,000 intellectuals and professional persons, all of whom had been held in three camps in western Russia, could not be found. At least 100,000 Polish prisoners of war, out of 320,000 captured in 1939, had been exterminated.

The German radio suddenly announced on April 13, 1943, that German forces in occupied Russia had discovered, at Katyn, near Smolensk, Russia, mass graves containing the bodies of 5,000 Polish officers who had been murdered by the Soviet authorities in 1940. Moscow called this a Nazi propaganda trick and declared that the Polish officers had been murdered and buried by the Nazis themselves when they captured the officers and this Soviet territory.

Page 772

The strategic decision of September 1943 to reject Churchill's plans for a Balkan campaign in order to concentrate on a cross-Channel offensive in 1944 were of vital importance in setting the form that postwar Europe would take. If it had been decided to postpone the cross-Channel attack and concentrate on an assault from the Aegean across Bulgaria and Romania toward Poland and Slovakia, the postwar situation would have been quite different.

It has been argued that failure to reach agreement on the territorial settlement of eastern Europe while the war was still in progress meant that Soviet armies would undoubtedly dominate once Germany was defeated. This assumption implies that America should have threatened to reduce of to cut off Lend-Lease supplies going unless we could obtain Soviet agreement to the kind of eastern European settlement we wanted.

Page 790

The Soviet advance became a race with the Western Powers even though Eisenhower's orders held back their advance at many points (such as Prague) to allow the Russians to occupy areas the Americans could easily have taken first.

Page 791

Roosevelt's sense of the realities of power were quite as acute as Churchill's or Stalin's but he concealed that sense much more deliberately and much more completely under a screen of high-sounding moral principles.

Page 795

Polish ministers rushed from London to Moscow to negotiate. While they were still talking and when the Soviet army was only six miles from Warsaw, the Polish underground forces in the city, at a Soviet invitation, rose up against the Germans. A force of 40,000 responded to the suggestion but the Russian armies stopped their advance and obstructed supplies to the rebels in spite of appeals from all parts of the world. After sixty-three days of hopeless fighting, the Polish Home Army had to surrender to the Germans. This Soviet treachery removed their chief obstacle to Communist rule in Poland and the London government in London was accordingly ignored.

Page 797

When victorious armies broke into Germany, late in 1944, the Nazis were still holding the survivors of 8 million enslaved workers, 10 million Jews, 6 million Russian prisoners of war and millions of prisoners from other armies. Over half of the Jews and Russians, possibly 12 million, were killed before final victory in 1945.

Page 799

The ideas that strategic air attacks must be directed at civilians in enemy cities were almost wholly ignored in the Soviet Union, largely rejected in Germany, created great controversy in France, but were accepted to a large extent among airmen in Britain and the U.S.

Page 800

The contribution by strategic bombing to the defeat of Germany was relatively incidental, in spite of the terrible losses suffered in the effort. The shift to city bombing was more or less accidental. In spite of the erroneous ideas of Chamberlain, Baldwin, Churchill, the war opened and continued for months with no city bombing at all, for the simple reason that the Germans had no intentions, no planes, and no equipment for strategic bombing.

The attack on cities began by accident when a group of German planes which were lost dumped their bomb loads, contrary to orders, on London on August 1940. The RAF retaliated by bombing Berlin the next night. Goring in counter-retaliation. British efforts to counterattack

by daylight raids on military objectives resulted in such losses that the air offensive was shifted to night attacks. This entailed a shift from industrial targets to indiscriminate bombing of urban areas. This was justified with the wholly mistaken argument that civilian morale was a German weak point and that the destruction of workers' housing would break this morale. The evidence shows that the German war effort was not weakened in any way by lowering civilian morale in spite of the horrors heaped on it.

Page 802

The most extraordinary example of this suffering occurred in the British fire raids on Hamburg in 1943 which was attacked for more than a week with a mixture of high-explosive and incendiary bombs so persistently that fire-storms appeared. The air in the city heated to over a thousand degrees began to rise rapidly with the result that winds of hurricane force rushed into the city. The water supply was destroyed and the flames were too hot for water to be effective. Final figures for the destruction were set at 40,000 dead, 250,000 houses destroyed with over a million made homeless. This as the greatest destruction by air attacks on a city until the fire raid on Tokyo on March 9 1945 which still stands today as the most devastating air attack in human history.

Page 806

General Eisenhower ignored Berlin and drove directly eastward toward Dresden. Eisenhower's decisions permitted the Soviet forces to "liberate" all the capital cities of central Europe. As late as May 4th, when the American forces were sixty miles from Prague and the Soviet armies more than a hundred, an effort by the former to advance to the city was stopped at the request of the Soviet commander, despite a vain message from Churchill to Eisenhower to take the Czech capital for political bargaining purposes.

Page 807

Soon the names Buchenwald, Dachau, and Belsen were repeated with horror throughout the world. At Belsen, 35,000 dead bodies and 30,000 still breathing were found. The world was surprised and shocked. There was no reason for the world's press to be surprised at Nazi bestiality in 1945 since the evidence had been fully available in 1938.

CLOSING IN ON JAPAN, 1943-1945

When Germany surrendered on May 8, 1945, Japan was already defeated but could not make itself accept unconditional surrender.

Page 808

Even American strategic bombing was different in the Pacific using B-29s, unknown in Europe, for area bombing of civilians in cities, something we disapproved in Europe.

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279 B-29s carrying 1,900 tons of fire bombs were sent on a low-level attack on Tokyo. The result was the most devastating air attack in all history. With the loss of only 3 planes, 16 square miles of central Tokyo were burned out; 250,000 houses were destroyed, over a million persons were made homeless and 84,793 were killed. This was more destructive than the first atomic bomb over Hiroshima five months later.

Page 817

American leaders shuddered to think of the results if such Kamikaze attacks were hurled at troop transports and American estimates of casualties were over half a million. These considerations form the background to the Yalta and Potsdam conferences and the decision to use to atom bomb on Japan.

The nature and decisions taken at the conference of Roosevelt, Churchill and Stalin held at Yalta in February 1945 has been so much distorted by partisan propaganda that it is difficult for any

historian to reconstruct the situation as it seemed at the time.
Page 819
In China,90%of the railroads were out of operation. The dominant Kuomintang Party's chief aim seemed to be to maintain its armed blockade of the Communist forces operating out of Yenan in northwestern China where the highly-disciplined Communist armies had gained some degree of local support.
American hopes of fusing the two parties into a common Chinese government broke down on the refusals of the Kuomintang and the remoteness of the Communists. In September 1944, Roosevelt suggest that General Stillwell be given command of all Chinese forces fighting the Japanese. General Chiang answered with a demand that Stilwell be removed from China.
Page 823
It is extremely likely that the frantic and otherwise inexplicable haste to use the second and third bombs, 21 and 24 days after Alamagordo arose from the desire to force the Japanese surrender before any effective Soviet intervention.
Page 824
On the economic side was a somewhat modified version of the Morgenthau scheme (which had sought the complete ruralization of German economic life to an agrarian basis) which was modified almost at once by a number of factors.
The first modifying factor was a desire for reparations. The Americans insisted that reparations betaken from existing stocks and plants rather than from future production in order to avoid the error of the 1919-1933 period, the overbuilding of German capital equipment and American financing of reparations into the indefinite future. It was provided that all reparations come from Germany as a whole and be credited to the victors on a percentage basis.
Page 828
On August 10th, a message accepting the Potsdam terms was sent. Thus ended six years of world war in which 70 million men had been mobilized and 17 million killed in battle. At least 18 million civilians had been killed. The Soviet Union had lost 6.1 million soldiers and 14 million wounded and over 10 million civilians dead. Germany lost 6.6 million servicemen with 7.2 million wounded and 1.3 million missing. Japan had 1.9 million dead. Britain war dead were 357,000 and America's were 294,000.
All this personal tragedy and material damage of untold billions was needed to demonstrate that Germany could not establish and Nazi continental bloc in Europe nor could Japan dominate an East-Asian co-Prosperity Sphere. This is the chief function of war: to demonstrate as conclusively as possible to mistaken minds that they are mistaken in regard to power relationships. But as we shall see, war also changes most drastically the objective facts themselves.

CHAPTER XVI: THE NEW AGE
INTRODUCTION.
Page 831
World War II transformed a system where man's greatest problems were the material ones of man's helplessness in the face of natural threats of disease, starvation, and natural catastrophes to the totally different system of the 1960s and 1970s where the greatest threat to man is man himself and where his greatest problems are the social (and non-material) ones of what his true goals of existence are and what use he should make of his immense power of the universe, his fellow men.
For thousands of years, some men had viewed themselves as creatures a little lower than angels, or even God, and a little higher than the beasts. Now, in the 20th century, man has acquired almost

divine powers and it has become increasingly clear that he can no longer regard himself as an animal but must regard himself as at least a man if not obligated to act like an angel or even a god.
Page 832
     The whole trend of the 19th century had been to emphasize man's animal nature and seek to increase his supply of material necessities.
Page 833
     The great achievements of the 19th century and the great crisis of the 20th century are both related to the Puritan tradition of the 17th century which regarded the body and the material as sinful and dangerous and something which must be sternly controlled.
Page 837
     These methods appeared in a number of ways, notably in an emphasis on self-discipline for future benefits, on restricted consumption and on saving in a devotion to work, and in a postponement of enjoyment to a future which never arrived. A typical example might be John D. Rockefeller: great saver, great worker, and great postponer of any self-centered action, even death. To such people, the most adverse comments which could be made about a failure to distinguish from a "successful" man were that he was a "saltrel," a "loafer," a "sensualist," and "self-indulgent." These terms reflected the value that the middle classes placed on work, saving, self-denial and social conformity.
Page 838
     The nineteenth century's emphasis on acquisitive behavior, on achievement, and on infinitely expansible demand is equally associated with the middle-class outlook. These basic features are inevitably lacking in backward, tribal, underdeveloped peasant societies and groups, not only in Africa and Asia but also in much of the Mediterranean, Latin America, central France, in the Mennonite communities of Pennsylvania and elsewhere. The lack of future preference and expansible material demands in other areas are essential features of the 20th century crisis.
     George Sorel (Reflections on Violence, 1908) sought a solution to this crisis in irrationalism, in action for its own sake. The other tendency sought a solution in rationalization, science, universality, cosmopolitanism and the continued pursuit of truth. The war became a struggle between the forces of irrationality represented by Fascism and the forces of Western science and rationalization represented by the Allied nations.
RATIONALIZATION AND SCIENCE
Page 838
     Rationalization gradually spread into the more dominant problem of business. From maximizing production, it shifted to maximizing profits.
     The introduction of rationalization into war was attributed to the efforts of Professor P.M.S. Blackett (Nobel Prize 1948) to apply radar to antiaircraft guns. From there, Blackett took the technique into antisubmarine defence whence it spread under the name "Operational Research" (OP).
     Operational research, unlike science, made its greatest contribution in regard to the use of existing equipment rather than the effort to invent new equipment. It often game specific recommendations, reached through techniques of mathematical probability, which directly contradicted the established military procedures. A simple case concerned the problem of air attack on enemy submarines: For what depth should the bomb fuse be set? In 1940, RAF set its fuses at 100 feet. based on three factors:
1) the time interval between the moments when the submarine sighted the plane and the plane sighted the submarine;
2) the speed of approach of the plane; and

3) the speed of submergence of the submarine.

The submarine was unlikely to be sunk if the bomb exploded more than 20 feet away. Operational Research added an additional factor:How near was the bomber to judging the exact spot where the submarine went down? since this error increased rapidly with the distance of the original sighting, a submarine which had time to submerge deeply would almost inevitably be missed by the bomb in position if not in depth; but with 100 foot fuses, submarines which had little time to submerge were missed because the fuse was too deep even when the position was correct. OP recommended setting fuses at 25 feet to sink the near sightings and practically conceded the escape of all distant sightings. When fuses were set at 35 feet, successful attacks on submarines increased 400 percent with the same equipment.

Page 839

The British applied OP to many similar problems.

1) With an inadequate3 number of A.A. guns, is it better to concentrate them to protect part of a city thoroughly or to disperse them to protect all of the city inadequately? (The former is better)

2) Repainting night bombers from black to white when used on submarine patrol increased sightings of submarines 30%.

3) Are small convoys safer for merchant ships than large ones (No by a large margin.)

4) With an inadequate number of patrol planes, was it better to search the whole patrol area some days (as was the practice) or to search part of it ever day with whatever planes were available? (the latter was better).

OP calculated the number of people killed per ton of bombs dropped showing that the casualties inflicted on Germany were about 400 civilians killed per month - about half the German automobile accident death rate - while 200 RAF crewmen were killed per month in doing the bombing. Later it was discovered the raids were actually killing 200 German civilians contributing little to the war effort at the cost of the 200 RAF men each month and thus were a contribution to the German victory. These estimates made it advisable to shift planes to U-boat patrol. A bomber in its average life of 30 missions, dropped 100 tons of bombs killing 20 Germans and destroying a few houses. The same plane in 30 missions of submarine patrol saved 6 loaded merchant ships and their crews from submarines. This discovery was violently resisted by the head of the RAF, Sir Arthur (Bomber) Harris.

Page 840

In 1938, Vannevar Bush, professor of electrical engineering and vice-president of the Massachusetts Institute of Technology persuaded Roosevelt to create the National Defence Research Committee with Bush as Chairman. When money ran short, they obtained half from MIT and an equal sum from John D. Rockefeller.

Page 842

First news of the success of Operations Research in Britain was brought to the U.S. by Conant in 1940 and was formally introduced by Bush. With the arrival of peace, it became an established civilian profession.

The rationalizing of society used the tremendous advances in mathematics of the 19th century but a good deal came from new developments. Amlong these have been applications of game theory, information theory, symbolic logic, cybernetics, and electronic computing. The newest of these was probably game theory, worked out by a Hungarian refugee mathematician, John von Neumann, at the Institute for Advanced Study. This applied mathematical techniques to situations in which persons sought conflicting goals in a nexus of relationships governed by rules. The basic work was "Theory of Games and Economic Behavior" by John von Neumann and Oskar Morgenstern (Princeton 1944).

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A flood of books all sought to apply mathematical methods to information, communications, and control systems.

THE TWENTIETH-CENTURY PATTERN

Page 862

The decision to use the bomb against Japan marks one of the turning points in history of our times. The scientists who were consulted had no information on the status of the war itself, had no idea how close to the end Japan already was. Some people like General Groves wanted it to be used to justify the two billion they had spent.

After it was all over, Director of Military Intelligence for the Pacific theatre of War Alfred McCormack, who was probably in as good position as anyone to for judging the situation, felt that the Japanese surrender could have been obtained in a few weeks by blockade alone. "The Japanese had no longer enough food in stock, and their fuel reserves were practically exhausted. We were mining all their harbors and if we had brought this operation to its logical conclusion, the destruction of Japanese cities with incendiary and other bombs would have been quite unnecessary. But General Norstad declared at Washington that this blockading action was a cowardly proceeding unworthy of the Air Force. It was therefore discontinued."

Page 863

IT was equally clear that the defeat of Japan did not require the A-bomb just as it did not require the Russian entry into the war or an American invasion of the Japanese home islands. But again, other factors involving interests and nonrational considerations were too powerful. However, if the U.S. had not finished the bomb project or had not used it, it seems most unlikely that the Soviet Union would have made its postwar efforts to get the bomb.

Page 864

The Russian leaders would almost certainly not have made the effort to get the bomb if we had not used it on Japan. On the other hand, if we had not used the bomb on Japan, we would have been quite incapable of preventing the Soviet forces from expanding wherever they were ordered in Eurasia in 1946.

Page 865

The growth of the army of specialists destroys one of the three basic foundations of political democracy. These three bases are:

1) that men are relatively equal in factual power;

2) that men have relatively equal access to the information needed to make a government's decisions;

3) that men have a psychological readiness to accept majority rule in return for those civil rights which will allow any minority to work to build itself up to become a majority.

Page 866

It is increasingly clear that in the 20th century, the expert will replace the industrial tycoon in control of the economic system even as he will replace the democratic voter in control of the political system. This is because planning will inevitably replace laissez-faire in the relationships between the two systems.

Hopefully, the elements of choice and freedom may survive for the ordinary individual in that he may be free to make a choice between two opposing political groups (even if these groups have little policy choice within the parameters of policy established by the experts) and he may have the choice to switch his economic support from one large unit to another. But in general, his freedom and choice will be controlled within very narrow alternatives by the fact that he will be numbered from birth and followed, as a number, through his educational training, his required military and other public service, his tax contributions, his health and medical requirements, and his final retirement and death benefits.

Page 867
One consequence of the nuclear rivalry has been the almost total destruction of international law as existed from the middle of the 17th century to the end of the 19th. That old international law was based on distinctions which no longer exist including the distinction between war and peace, the rights of neutrals, the distinction between public and private authority. These are now destroyed or in great confusion.
The post-war balance of terror reached its peak of total disregard both of noncombatants and of neutrals in the policies of John Foster Dulles who combined sanctimonious religion with "massive retaliation wherever and whenever we judge fit" to the complete destruction of any non-combatant or neutral status.
Page 868
As a result, all kinds of groups could destroy law and order without suffering retaliation by ordinary powers and could become recognized as states when they were totally lacking in the traditional attributes of statehood. For example, the Leopoldville group were recognized as the real government of the whole Congo in spite of the fact that they were incapable of maintaining law and order over the area. Similarly, a gang of rebels in Yemen in 1962 were instantly recognized before they gave any evidence whatever of ability to maintain control or of readiness to assume the existing international obligations of the Yemen state and before it was established that their claims to have killed the king were true.
Page 869
Under the umbrella of nuclear stalemate, outside governments subsidize murders or revolts as the Russians did in Iraq and as the American CIA did in several places, successfully in Iran in 1953, and in Guatemala in 1954 or very unsuccessfully as in the Cuban invasion of 1961. Under the Cold War umbrella, small groups can obtain recognition as states by securing the intervention (usually secret) of some outside Power.

TRAGEDY AND HOPE Chapters XVII-XVIII
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CHAPTER XVII: NUCLEAR RIVALRY AND THE COLD WAR:
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THE FACTORS
Page 873
The period 1945 to early 1963 forms a unity during which a number of factors interacted upon one another to present a very complicated and extraordinarily dangerous series of events. That mankind and civilized life got through the period may be attributed to a number of lucky chances rather than to any particular skill among the two opposing political blocs.
The Cold War is almost always described in terms which put minor emphasis or even neglect the role of technological rivalry because

most historians do not feel competent to discuss it but chiefly because much of the evidence is secret. Because of such secrecy, the story of this rivalry falls into two quite distinct and even contradictory parts:
1) what the real situation was; and
2) what prevalent public opinion believed the situation to be.

For example, the Soviet Union had an H-bomb many months before we did when public opinion believed the opposite; the 1960 believe throughout the world of a so-called "missile gap" or American inferiority in nuclear missiles when no such inferiority existed.

Page 875

The balance of nuclear weapons was the central factor in the Cold War. Cessation on nuclear testing came close to achievement in 1950 when both sides had atomic weapons but was destroyed at that time by President Truman's order to proceed with the development of the hydrogen bomb. By 1963, both sides had these weapons and the balance of terror had been achieved.

Page 879

The party struggle in the U.S. found the intellectuals (including scientists), the internationalists, the minorities and the cosmopolitans in the Democratic Party with the businessmen, bankers and clerks in the Republican Party. The Republicans had fallen into the control (represented by Senators Taft, Wherry, Bridges and Jenner) of those who were most ignorant of the real issues and were most remote from any conceptions of national political responsibility.

Page 880

This group, to whom we often give the name "neo-isolationist," knew nothing of the world outside the U.S., and generally despised it. Thus, they gave no consideration to our allies or neutrals, and saw no reason to know or to study Russia, since it could be hated completely without need for accurate knowledge. All foreigners were regarded as unprincipled, weak, poor, ignorant and evil, with only one aim in life, namely, to prey on the United States. These neo-isolationists and unilateralists were equally filled with suspicion or hatred of any American intellectuals, including scientists, because they had no conception of any man who placed objective truth higher than subjective interests since such an attitude was a complete challenge to the American businessman's assumption that all men are and should be concerned with the pursuit of self-interest and profit.

Neo-isolationism had a series of assumptions which could not be held by anyone who had any knowledge of the world outside U.S. middle-class business circles. These beliefs were seven in number:
1) Unilateralism: that the U.S. should and could act by itself without need to consider allies, neutrals or the Soviet Union;
2) National omnipotence: that the U.S. is so rich and powerful that no one else counts and that there is no need to study foreign areas, customs, policies;

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3) Unlimited goals (or utopianism): the belief that there are final solutions to the world's problems. Upholders of this view refused to accept that constant danger and constant problems were a perpetual condition of human life except in brief and unusual circumstances. Dulles insisted that the Truman policy of containment must be replaced by a policy of "liberation." These policies were not designed to win conclusively and did not seek to solve the problem of the Soviet Union but to live with it, "presumably forever." He did accept preventive war in the form of massive retaliation if the Communists made any further advances.
4) The neo-isolationist belief that continuance of the Soviet threat arose from internal treason within America.

Page 882
5) Since the chief "high moral principle" which motivated the neo-isolationists insisted that Soviet Russia and Democrats were engaged in a joint tacit conspiracy to destroy America by high taxes by using the Cold War to tax America into bankruptcy
6) Since neo-isolationists rejected all partial solutions, there was little they could do but talk loudly and sign anti-communist pacts.
7) The unrealistic and unhistoric nature of neo-isolationism meant that it could not actually be pursued as a policy. It was pursued by John Foster Dulles with permanent injury to our allies. When Senator McCarthy turned his extravagant charges of subversion and treason from the State Department to the army, his downfall began. The neo-isolationist forces still continue in an increasingly irresponsible form under a variety of names including John Birch Society members or more generally as the "Radical Right."
Page 885
Robert Oppenheimer was on a total of thirty five government committees. There was a shadow on Oppenheimer's past. In his younger and more naive days, he had been closely associated with Communists. Certainly never a Communist himself, and never, at any time, disloyal to the U.S., he had nonetheless associated with Communists. His brother Frank and his wife were Communist Party workers while Oppenheimer's own wife was an ex-Communist, widow of a Communist who had been killed fighting Fascism in Spain in 1937. The Oppenheimers continued to have friends who were Communists and contributed money until the end of 1941.
Page 886
All this derogatory information was known to General Groves and to Army Intelligence and used in 1953-1954 to destroy his reputation. It was an essential element in the neo-isolationist McCarthyite, Dulles interregnum of 1953-1957.
THE ORIGINS OF THE COLD WAR, 1945-1949
Page 891
IN the Soviet system, while most Russians lived in poverty, a privileged minority, buying in special stores with special funds and special ration cards, had access to luxuries undreamed of by the ordinary person.
Page 900
In 1944, Secretary of the Treasury Morgenthau took advantage of his close personal friendship with Roosevelt to push forward his own pet scheme to reduce Germany to a purely agricultural state by almost total destruction of her industry, the millions of surplus population to be, if necessary, deported to Africa. The secretary, supported by his assistant secretary, Harry Dexter White, was deeply disturbed by Germany's history of aggression. The only way to prevent it was to reduce Germany's industry and thus her warmaking capacity as close to nothing as possible. The resulting chaos, inflation, and misery would be but slight repayment for the horrors Germany had inflicted on others over many years.
By personal influence, Morgenthau obtained acceptance of a somewhat modified version of this plan by both Roosevelt and Churchill at the Quebec conference of September 1944. The error at Quebec was quickly repudiated but no real planning was done and the Morgenthau Plan played a considerable role in the JCS 1067, the directive set up to guide the American military occupation of Germany. It proposed reparations be obtained by dismantling Germany industry. The JCS 1067 directive ordered that Germany be treated as a defeated enemy and not as a liberated country. No steps were taken to secure its economic recovery.
Page 901
At the Potsdam conference, it was agreed that the German economy

should not be permitted should not be permitted to recover higher than the standard of living of 1932, at the bottom of the depression, the level, in fact, which had brought Hitler to power in 1933.

It took more than two years of misery for Germany to secure any changes in these American objectives. Hunger and cold took a considerable toll, and the Germans, for two years, experienced some of the misery they had inflicted on others in the preceding dozen years.

The Germany currency reform of 1948 is the fiscal miracle of the post-war world. From it came
(1) an explosion of industrial expansion and economic prosperity for West Germany;
(2) they tying of the West Germany economy to the West;
(3) an example for other western European in economic expansion; and
(4) a wave of prosperity for western Europe as a whole.

AMERICAN CONFUSIONS, 1945-1950

Page 909

The American response to the Soviet refusal of postwar cooperation was confused and tentative.

Winston Churchill in June 1946 spoke of the "Iron Curtain" which Staling was lowering between the Soviet bloc and the West.

Lasting from 1947-1953, the chief characteristics of "containment" were economic and financial aid to other nations to eliminate the misery and ignorance which fosters communism.

Page 910

Americans, when goals are established as they are in war, work together very effectively, but political work in peacetime, with its ambiguous goals, is relegated to rivalry, bickering, and total inability to relate means to goals. As a result, the means themselves tend to become goals.

Page 911

Each service has alliances with the industrial complexes which supply their equipment. These complexes not only supply funds for each service to carry its message to the Congress but also exert every influence to retain equipment by dangling before the high officers who can influence contracts, offers of future well-paying consultant positions with the industrial firms concerned. Most high officers retired and then took consultant jobs with those firms.

Page 912

Four-star general Somervell retired on a disability salary of $16,000 to join a number of firms which paid him R$125,000 a year; three-star general Campbell retired on a disability salary of $9,000 and became an executive at $50,000 a year of firms from whom he had previously purchased $3 billion in armaments; four-star general Clay retired on $16,000 a year but signed up at over $100,000 a year.

These are but a few of more than a hundred general officers whose post retirement alliances with industrial firms encouraged their successors, still on active service, to remain on friendly terms with such appreciative business corporations.

Page 919

Pearl Harbor was a total surprise. This last point was so hard to believe, once the evidence was available, that the same groups who were howling about Soviet espionage in 1948-1955 were also claiming that Roosevelt expected and wanted Pearl Harbor. Both these beliefs, if they were believed, were based on gigantic ignorance and misconceptions about the nature of intelligence.

Page 921

A great deal of nuclear information (whether secret or not is unknown) as well as uranium metal, went to the Soviet Union as part of Lend-Lease in 1943. Major George Racey Jordan, USAAF, tried in vain to disrupt these shipments at the time. While most of Jordan's evidence

is unreliable, the shipment of uranium to Russia is corroborated from other sources. The export licenses for such shipments were granted at the request of General Groves. Jordan's other evidence, most of which was very discreditable to the New Deal (since he testified that he, Groves, and others were under direct pressure from Harry Hopkins to allow export of nuclear materials) was subsequently shown to be false.
Page 923

Much of the evidence on the Communist movement came from ex-Communists such as Elizabeth Bentley, Louis Budenz, Whittaker Chambers, John Lautner and others. The first three names mentioned are known because they dramatized, distorted and manipulated evidence for their own private purposes. This is particularly true of Elizabeth Bentley who exaggerated her role.
Page 925

The House Un-American Committee was aimed more at partisan advantage than ascertaining the nature of the Communist conspiracy. the truth cannot now be ascertained. Numerous other accused Communists, both in government and out, whose names were given to the committee in the same breath as Hiss or Lattimore were almost totally ignored.
Page 927

Others called before the committee who refused to give evidence under the Fifth Amendment which protects against self-incrimination were in fact Communists and Bentley and Chambers knew them as such.
Page 938

The revelation of Communist influence in the U.S. was undoubtedly valuable but the cost in damage to reputations of innocent persons was very high. Much of this damage came from the efforts of Senator Joseph McCarthy, Republican, of Wisconsin to prove that the State Department and the army were widely infiltrated with Communists.
Page 939

McCarthy was not a conservative, still less a reactionary. He was a fragment of elemental force, a throwback to primeval chaos. He was the enemy of all order and all authority, with no respect, or even understanding, for principles, laws, regulations, or rules. As such, he had nothing to do with rationality or generality. Concepts, logic, distinctions of categories were completely outside his world. It is clear he did not have any idea what a Communist was, still less Communism itself, and he did not care. This was simply a term he used in his game of personal power. Most of the terms which have been applied to him, such as "truculent," "brutal," "ignorant," "sadistic," "foul-mouthed," "brash," are quite correct but not quite in the sense that his enemies applied them, because they assumed that these qualities and distinctions had meaning in his world as they did in their own. They did not, because his behavior was all an act, the things he did to gain the experience he wanted, that is, the feeling of power, of creating fear, of destroying the rules, and of winning attention and admiration for doing so. His act was that of Peck's Bad Boy but on a colossal scale. He sought fame and acclaim by showing an admiring world of schoolmates what a tough guy he was, defying all the rules, even the rules of decency and ordinary civilized behavior. But like the bad boy of the schoolyard, he had no conception of time or anything established, and once he had found his act, it was necessary to demonstrate it every day. His thirst for power, the power of mass acclaim and publicity, reached the public scene at the same moment as television, and he was the first to realize what could be done by using the new instrument for reaching millions.

His thirst for power was insatiable because like hunger, it was a daily need. It had nothing to do with the power of authority or regulated discipline, but the personal power of a sadist. All his

destructive instincts were against anything established, the wealthy, the educated, the well-mannered, the rules of the Senate, the American party system, the rules of fair play. As such, he had no conception of truth or the distinction between it and falsehood, just as he had no conception of yesterday, today, tomorrow as distinct entities. He simply said whatever would satisfy, momentarily, his yearning to be the center of the stage surrounded by admiring, fearful, shocked, amazed people. He did not even care if their reaction was admiration, fear, shock, or amazement and he did not care if they, as persons, had the same reaction or a different one the next day or even a moment later. He was exactly like an actor in a drama, one in which he had made the script as he went along, full of falsehoods and inconsistencies, and he was genuinely surprised and hurt if a person whom he had abused and insulted for hours at a hearing did not walk out with him to a bar or even to dinner the moment the hearing session was over. He knew it was an act; he expected you to know it was an act. There was really no hypocrisy in it, no cynicism, no falsehood, as far as he was concerned, because he was convinced that this was the way the world was. Everyone he was convinced, had a racket; this just happened to be his, and he expected people to realize this and to understand it.

Page 930

Of course, to the observant outsider who did not share his total amorality, it was all false, invented as he went along, and constantly changed, everything substantiated by documents pulled from his briefcase and waved about too rapidly to be read. Mostly these documents had nothing to do with what he was saying; mostly he had never looked at them himself; they were merely props for the performance, and to him, it was as silly for his audience to expect such documents to be relevant as it would be for the audience in a theater to expect the food that is being eaten, the whiskey that is being drunk, or the documents which are read in that play to be relevant to what the actor is saying.

Every time he spoke, with each version he became a larger more nonchalant hero. In 1952, he intimidated the Air Force into awarding him the Distinguished Flying (given for twenty five combat missions) although he had been a grounded intelligence officer who took occasional rides in planes.

Since laws and regulations were, for McCarthy, nonexistent, his business and financial affairs are, like his life, a chaos of illegalities.

Page 931

He seized upon Communism. "That's it," he said. "The government is full of communists. We can hammer away at them." Without any real conception of what he was doing, and without any research or knowledge of the subject, on February 9, McCarthy waved a piece of paper and said "I have here in my hand a list of 205 members of the Communist Party still working and shaping the policy of the State Department.

Page 932

On Feb 20th, in an incoherent speech in the Senate was six hours of bedlam, as case after case was presented filled with contradictions and irrelevancies. According to Senate Republican Leader Taft, "It was a perfectly reckless performance." Nevertheless, Taft and his colleagues determined to accept and support these charges since they would injure the Administration. Few people realize that in five years of accusations, McCarthy never turned up a Communist in the State Department although undoubtedly there must have been some.

Page 933

He claimed that "the top Russian espionage agent" in the U.S., Alger Hiss's boss in the State Department, "the chief architect of our Far Eastern policy" was Professor Owen Lattimore. The trouble was

Lattimore was not a Communist, not a spy, and not employed by the State department.

In July, the Tydings subcommittee condemned McCarthy for a "fraud and a hoax." McCarthy had the power of an inflamed and misled public opinion. Tydings was beaten in Maryland in 1950. Benton from Connecticut who introduced the resolution to expel McCarthy from the Senate in 1951 and whose charges were fully supported by the Senate's investigation of McCarthy's private finances, was defeated in 1952. During this period, McCarthy violated more laws and regulations than any previous senator in history. When a reporter once said "Isn't that a classified document?" McCarthy said, "It was. I just declassified it."

Page 934

Eisenhower was soon boasting that 1,456 Federal workers had been "separated" in the first four months of the Eisenhower security program. 2,200 at the end of the first year. Nixon said "We're kicking the Communists and fellow travellers and security risks out of the Government by the thousands." It was soon clear that no Communists were kicked out and that security risks included all kinds of persons.

For a while, the Administration tried to outdo McCarthy by demonstrating in hearings that China had been "lost" to the Communists because of the careful planning and intrigue of Communists in the State Department. But they failed to prove their contention.

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There is considerable truth in the China Lobby's contention that the American experts on China were organized into a single interlocking group which had a general consensus of a Leftish character. It is also true that this group, from its control of funds, academic recommendations, and research of publication opportunities, could favor persons who accepted the established consensus and could injure, financial or in professional advancement, persons who did not accept it. It is also true that the established group, by its influence on book reviewing in the New York Times, the Herald Tribune and the Saturday Review, a few magazines including the "liberal weeklies" and in the professional journals, could advance or hamper any specialist's career. It is also true that these things were done in the United States by the Institute of Pacific Relations, that this organization had been infiltrated by Communists, and by Communist sympathizers, and that much of this group's influence arose from its access to and control over the flow of funds from financial foundations to scholarly activities. All these things were true, but they would have been true of many other areas of American scholarly research and academic administration.

On the other hand, the charges of the China Lobby that China was "lost" because of this group is not true. Yet the whole subject is of major importance in understanding the twentieth century.

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Lattimore, because he knew Mongolian, tended to become everybody's expert. Many of these experts which were favored by the Far East "establishment" in the Institute of Pacific RElations were captured by Communist ideology. Under its influence, they propagandized, as experts, erroneous ideas and sought to influence policy in mistaken directions.

Behind this unfortunate situation lies another, more profound, relationship, which influences matters much broader than Far Eastern policy. It involves the organization of tax-exempt fortunes of international financiers into foundations to be used for educational, scientific, and "other public purposes." Sixty or more years ago, public life in the East was dominated by the influence of "Wall Street" referring to international financial capitalism deeply

involved in the gold standard, foreign exchange fluctuations,floating of fixed-interest securities and shares for stock-exchange markets.
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This group, which in the United States, was completely dominated by J.P. Morgan and Company from the 1880s to the 1930s was cosmopolitan, Anglophile, internationalist, Ivy League, eastern seaboard, high Episcopalian and European-culture conscious. Their connection with the Ivy League colleges rested on the fact that large endowments of these institutions required constant consultation with the financiers of Wall Street and was reflected in the fact that these endowments were largely in bonds rather than in real estate or common stocks. As a consequence of these influences, J.P. Morgan and his associates were the most significant figures in policy making at Harvard, Columbia and Yale while the Whitneys and Prudential Insurance Company dominated Princeton. The chief officials of these universities were beholden to these financial powers and usually owed their jobs to them.

The significant influence of "Wall Street" (meaning Morgan) both in the Ivy League and in Washington explains the constant interchange between the Ivy League and the Federal Government, and interchange which undoubtedly aroused a good deal of resentment in less-favored circles who were more than satiated with the accents, tweeds, and High Episcopal Anglophilia of these peoples. Poor Dean Acheson, in spite of (or perhaps because of) his remarkable qualities of intellect and character, took the full brunt of this resentment from McCarthy and his allies. The same feeling did no good to pseudo-Ivy League figures like Alger Hiss.
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In spite of the great influence of this "Wall Street" alignment, an influence great enough to merit the name of the "American Establishment," this group could not control the Federal Government and, in consequence, had to adjust to a good many government actions thoroughly distasteful to the group. The chief of these were in taxation law, beginning with the graduated income tax in 1913, but culminating above all else with the inheritance tax. These tax laws drove the great private fortunes dominated by Wall Street into tax-exempt foundations which became the major link in the Establishment network between Wall Street, the Ivy League and the Federal government. Dean Rusk, Secretary of State after 1961, formerly president of the Rockefeller Foundations, is as much a member of this nexus as Alger Hiss, the Dulles brothers, Jerome Green, etc.

More than fifty years ago, the Morgan firm decided to infiltrate the Left-wing political movements of the United States. This was relatively easy to do since these groups were starved for funds and eager for a voice to reach the people. Wall Street supplied both. The purpose was not to destroy, dominate, or take over but was really three-fold:

1) to keep informed about the Left-wing or liberal groups;
2) to provide them with a mouthpiece so they could blow off steam;
3) to have a final "veto" on their actions if they ever went radical.

There was nothing really new about this decision, since other financiers had talked about it and even attempted it earlier.

The best example of the alliance of Wall Street and Left-wing publication was "The New Republic" a magazine founded in 1914 by Willard Straight using Payne Whitney money. The original purpose for establishing the paper was to provide an outlet for the progressive Left and to guide it in an Anglophile direction. This latter task was entrusted to Walter Lippmann.

Willard Straight, like many Morgan agents, was present at the Paris Peace Conference in 1919.

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The first New Republic editor,Herbert Croly wrote, "Of course, the Straights could always withdraw their financial support if they ceased to approve of the policy of the paper;and in that event, it would go out of existence as a consequence of their disapproval." The chief achievement of The New Republic in 1914-1918 and again in 1938-1948 was for interventionism in Europe.

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Straight allowed the Communists to come into the New Republic. The first to arrive was Lew Frank.

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Frank joined a "Communist Research Group" which met in the Manhattan home of the wealthy "Wall Street Red," Frederick Vanderbilt Field.

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To Morgan, all political parties were simply organizations to be used, and the firm always was careful to keep a foot in all camps.

Like the Morgan interest libraries, museums and art, its recognition of the need for social work among the poor went back to the original founder of the firm, George Peabody. To this same figure may be attributed the use of tax-exempt foundations for controlling these activities as in the use of Peabody foundations to support Peabody libraries and museums. Unfortunately, we do not have space here for this great and untold story, but it must be remembered that what we do say is part of a much larger picture.

Our concern at the moment is with the links between Wall Street and the Left, especially the Communists. Here the chief link was the Thomas W. Lamont family. Tom Lamont was brought into the Morgan firm, as Straight several years later, by Henry P. Davison, a Morgan partner. Each had a wife who became a patroness of Leftish causes and two sons, of which the elder was a conventional banker, and the youngest was a Left-wing sympathizer and sponsor.

HUAC files show Tom Lamont, his wife Flora, and his son Corliss as sponsors and financial angels to almost twenty extreme Left organizations, including the Communist Party itself.

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In 1951, the McCarran Committee sought to show that China had not been lost to the Communists by the deliberate actions of a group of academic experts on the Far East and Communist fellow travellers whose work in that direction was controlled and coordinated by the Institute of Pacific Relations (IPR). The influence of the Communists in the IPR is well established but the patronage of Wall Street is less well known.

The IPR was a private association of ten independent national councils in ten countries concerned with affairs in the Pacific. Money for the American Council of the IPR came from the Carnegie Foundation and the Rockefeller Foundation. The financial deficits which occurred each year were picked up by financial angels, almost all with close Wall Street connections. There can be little doubt that the IPR line had many points in common both with the Kremlin's party line on the Far East and with the State Department's police line in the same area. Clearly there were some Communists, even party members, involved but it is much less clear that there was any disloyalty to the U.S. There was a great deal of intrigue both to help those who agreed with the IPR line and to influence U.S. government policy in this direction, but there is no evidence of which I am aware of any explicit plot or conspiracy to direct American policy in a direction favorable either to the Soviet Union or to international Communism.

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It must be confessed that the IPR had many of the marks of a fellow traveller or Communist "captive" organization. But this does

not mean that the Radical Right version of these events is accurate. For example, Elizabeth Bentley testified on the IPR and identified almost every person associated with the organization as a Communist.
Page 949

This Radical Right fairy tale, which is not an accepted folk myth in many groups in America, pictured the recent history of the United States as a well-organized plot of extreme Left-wing elements, operating from the White House itself and controlling all the chief avenues of publicity in the United States. This plot, if we are to believe the myth, worked through such avenues as the New York Times, Herald Tribute, Christian Science Monitor, Washington Post, Atlantic Monthly, and Harper's Magazine and had at its core the wild-eyed and bushy-haired theoreticians of Socialist Harvard and the London School of Economics. It was determined to bring the U.S. into World War II on the side of England (Roosevelt's first love) and Soviet Russia (his second love) and, as part of this consciously planned scheme, invited Japan to attack Pearl Harbor all the while undermining America's real strength by excessive spending and unbalanced budgets.
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This myth, like all fables, does in fact have a modicum of truth. There does exist and has existed for a generation, an international Anglophile network which operates to some extent in the way the Radical Right believes the Communists act. In fact, this network, which we may identify as the Round Table Groups, has no aversion to cooperating with the Communists, or any other groups, and frequently does so. I know of the operations of this network because I have studied it for twenty years and was permitted for two years, in the early 1960s, to examine its papers and secret records. I have no aversion to it or to most of its aims and have, for much of my life, been close to it and to many of its instruments. I have objected, both in the past and recently, to a few of its policies but in general my chief difference of opinion is that it wishes to remain unknown, and I believe its role in history is significant enough to be known.

The Round Table Groups have already been mentioned several times. At the risk of some repetition, the story will be summarized here because the American branch of this organization (sometimes called the "Eastern Establishment) has played a very significant role in the history of the United States in the last generation.

The Round Table Groups were semi-secret discussion and lobbying groups whose original purpose was to federate the English-speaking world along lines laid down by Cecil Rhodes. By 1915, Round Table groups existed in seven countries including England, South Africa, Canada, Australia, New Zealand, India and the United States.
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Money for their activities originally came from Cecil Rhodes, J.P. Morgan, the Rockefeller and Whitney families and associates of bankers Lazard Brothers and Morgan, Grenfell and Company.

The chief backbone of this organization grew up along the already existing financial cooperation running from the Morgan Bank in New York to a group of international financiers in London led by Lazard Brothers.

Lionel Curtis established in England and each dominion a front organization to the existing local Round Table Group. This front organization called the Royal Institute of Public Affairs, had as its nucleus in each area the existing submerged Round Table Group.
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In New York, it was known as the Council on Foreign Relations and was a front for J.P. Morgan and Company in association with the very small American Round Table Group. The American organizers were dominated by the large number of Morgan "experts" including Lamont and

Beer, who had gone to the Paris Peace Conference and there became close friends with the similar group of English "experts" which had been recruited by the Milner group. In fact, the original plans for the Royal Institute and the Council on Foreign Relations.

In 1928, the Council on Foreign Relations was dominated by the associates of the Morgan bank. Closely allied with this Morgan influence were a small group of Wall Street lawyers whose chief figures were Elihu Root, John W. Davis, the Dulles Brothers, John J. McCloy.

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On this basis, there grew up in the 20th century a power structure between London and New York which penetrated deeply into university life, the press, and the practice of foreign policy.

The American branch of this "English Establishment" exerted much of its influence through five American newspapers (New York Times and Herald Tribune, Christian Science Monitor, Washington Post, Boston Evening Transcript). It might be pointed out that the existence of this Wall Street Anglo-American axis is quite obvious once it is pointed out. It is reflected by the fact that such Wall Street luminaries such as John W. Davis, Lewis Douglas, Jock Whitney and Douglas Dillon were appointed to be American ambassadors in London.

This double international network in which the Round Table groups formed the semi-secret or secret nuclei of the Institutes of International Affairs was extended into a third network for Pacific Affairs in 1925 by the same people for the same motives.

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The chief aims of this elaborate, semi-secret organization were largely commendable: to coordinate the international activities and outlooks of all the English-speaking world into one; to work to maintain peace; to help backward, colonial, and underdeveloped areas toward prosperity along the lines somewhat similar to those taught at Oxford and the University of London.

These organizations and their financial backers were in no sense reactionary or Fascistic persons, as Communist propaganda would like to depict them. Quite the contrary, they were gracious and cultured gentlemen who were much concerned with the freedom of expression of minorities and the rule of law for all and who were convinced that they could forcefully civilize the Boers, the Irish, the Arabs, and the Hindus, and who are largely responsible for the partitions of Ireland, Palestine, and India. If their failures now loom larger than their successes, this should not be allowed to conceal the high motives with which they attempted both.

It was this group of people, whose wealth and influence so exceeded their experience and understanding, who provided much of the framework of influence which the Communist sympathizers and fellow travellers took over in the United States in the 1930s. It must be recognized that the power of these energetic Left-wingers exercised was never their own power or Communist power but was ultimately the power of the international financial coterie, and, once the anger and suspicions of the American people were aroused as they were in the 1950s, it was a fairly simple matter to get rid of the Red sympathizers. Before this could be done, however, a congressional committee, following backward to their source the threads which led from the admitted Communists like Whittaker Chambers, through Alger Hiss, and the Carnegie Endowment to Thomas Lamont and the Morgan Bank, fell into the whole complicated network of the interlocking tax-exempt foundations. The Eighty-third Congress set up in 1953 a Special Reece Committee to investigate Tax-Exempt Foundations. It soon became clear that people of immense wealth would be unhappy if the investigation went too far and that the "most respected" newspapers in the country, closely allied with these men of wealth, would not get excited enough

about any revelations to make the publicity worthwhile. An interesting report showing the Left-wing associations of interlocking nexus of tax-exempt foundations was issued in 1954 rather quietly.. Four years later, the Reece Committee's general counsel, Rene A Wormser, wrote a shocked, but not shocking, book on the subject called "Foundations: Their Power and Influence."

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Jerome Green is a symbol of much more than the Wall Street influence in the IPR. He is also a symbol of the relationship between the financial circles of London and those of the eastern U.S. which reflects one of the most powerful influences in 20th century American and world history. The two ends of this English-speaking axis have sometimes been called, perhaps facetiously, the English and American Establishments. There is, however, a considerable degree of truth behind the joke, a truth which reflects a very real power structure. It is this power structure which the Radical Right in the U.S. has been attacking for years in the belief they are attacking the Communists. These misdirected attacks did much to confuse the American people in 1948-1955. By 1953 most of these attacks had run their course. The American people, thoroughly bewildered at the widespread charges of twenty years of treason and subversion, had rejected the Democrats and put into the White House a war hero, Eisenhower. At the time,two events, one public and one secret, were still in process. The public one was the Korean War; the secret one was the race for the thermonuclear bomb.

CHAPTER XVIII: NUCLEAR RIVALRY AND COLD WAR, RACE FOR THE H-BOMB 1950-1957

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On March 1, 1954, we exploded our first real thermonuclear bomb at Bikini atoll. It was a horrifying device which spread death-dealing radioactive contamination over more than 8,000 square miles and injurious radiation over much of the world.

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To prepare public opinion to accept use of the H-bomb, if it became necessary, Strauss sponsored a study of radioactive fallout whose conclusion was prejudged by calling it "Project Sunshine." By selective release of some evidence and strict secrecy of other information, they tried to establish in public opinion that there was no real danger to anyone from nuclear fallout even in all-out nuclear war. This gave rise to controversy between the scientists and the Administration on the danger of fallout.

The Eisenhower through the Dulles doctrine of "massive retaliation" was so deeply committed to nuclear war that it could not permit the growth of public opinion which would refuse to accept the use of nuclear weapons because of objections to the danger of fallout to neutrals and non-combatants. By 1953, this struggle became so intense that supporters of massive retaliation decided they must destroy the public image and public career of Oppenheimer.

THE KOREAN WAR AND ITS AFTERMATH, 1950-1954

Page 970

The emphasis on nuclear retaliation to Communist aggression anywhere in the world made it necessary to draw a defence perimeter over which such aggression would trigger retaliation. At the insistence of MacArthur, that perimeter was drawn to exclude Korea, Formosa and Mainland China; accordingly, all American forces had been evacuated from South Korea in June 1949.

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The Soviet Union interpreted this to mean that the U.S. would

allow South Korea to be conquered by the North. Instead, when Russia, through its satellite North Korea, sought to take Korea, this game rise to an American counteraction.
Page 972
For forty-eight hours after the Korean attack, the world hesitated, awaiting America's reaction. Truman immediately committed American air and sea forces in the area south of 38 degrees and demanded a UN condemnation of the aggression. Thus, for the first time in history, a world organization voted to use collective force to stop armed aggression. This was possible because the North Korean attack occurred at a time when the Soviet delegation was absent from the UN Security Council, boycotting it as a protest at the presence of the delegation from Nationalist China. Accordingly, the much-used Soviet veto was unavailable.
Page 974
The frontier was reached by UN forces as the month ended. The Red Chinese decision to intervene was made nine days after American troops crossed the 38th parallel into North Korea. It was inevitable as Red China could hardly be expected to allow the buffer North Korean state to be destroyed and American troops to occupy the line of the Yalu. As soon as it became clear that American forces would continue past the 38th parallel to the Yalu, the Chinese intervened, not to restore the 38th parallel frontier but to clear the U.N. forces from Asia completely.
Page 975
The Truman Administration, after the victory at Inchon, did not intend to stop at the 38th parallel and hoped to reunite the country under the Seoul government. It is probable that this alone triggered the Chinese intervention.
On October 9, 1950, two of MacArthur's planes attacked a Russian air base sixty-two miles inside Russian territory.
Page 977
After Truman removed MacArthur, Republican leaders spoke publicly of impeaching the President. Senator William Jenner said: This country today is in the hands of a secret inner coterie which is directed by agents of the Soviet Union. We must cut this whole cancerous conspiracy out at once. Our only choice is to impeach the president and find out who is the secret invisible government which has so cleverly led our country down the road to destruction."
Page 979
On the whole, neo-isolationist discontent was a revolt of the ignorant against the informed or educated, of the nineteenth century against the insoluble problems of the twentieth, of the Midwest of Tom Sawyer against the cosmopolitan East of J.P. Morgan and Company, of old Siwash against Harvard, of the Chicago Tribune against the Washington Post or New York Times, of simple absolutes against complex relativisms, of immediate final solutions against long-range partial alleviations, of frontier activism against European though, a rejection, out of hand, of all the complexities of life which had arisen since 1915 in favor of a nostalgic return to the simplicities of 1905, and above all a desire to get back to the inexpensive, thoughtless, and irresponsible international security of 1880.
Page 980
This neurotic impulse swept over the U.S. in a great wave in the years 1948-1955, supported by hundreds of thousands of self-seeking individuals, especially peddlers of publicity and propaganda, and financed no longer by the relatively tied-up funds of declining Wall Street international finance, but by its successors, the freely available winnings of self-financing industrial profits from such new industrial activities as air power, electronics, chemicals, which pretended to themselves that their affluence was entirely due to their

own cleverness. At the head of this list were the new millionaires led by the Texas oil pluggers whose fortunes were based on tricky tax provisions and government-subsidized transportation systems.
Page 982
The Kremlin was quite wiling to keep America's men, money, and attention tied down in Korea.
Page 985
During Truman's last four budgets, expenditures on national security increased from $13 billion in 1950 to $50 billion in 1953.
THE EISENHOWER TEAM, 1952-1956
Page 986
The Korean War disrupted the pleasures of the postwar economic boom with military service, shortages, restrictions and cost-of-living inflation which could not help but breed discontent. And through it, all the mobilized wealth of the country, in alliance with most of the press, kept up a constant barrage of "Communists in Washington," "twenty years of treason." In creating this picture, the leaders of the Republican Party totally committed themselves to the myths of the neo-isolationists and of the Radical Right.
In June 1951, Senator McCarthy delivered a speech in the Senate of 60,000 words attacking General Marshall as a man "steeped in falsehood" who has "recourse to the lie whenever it suits his convenience," one of the architects of America's foreign policy made by "men high in Government who are concerting to deliver us to disaster, a conspiracy so black that when it is finally exposed, its principals shall be forever deserving of the maledictions of all honest men."
Page 987
Eisenhower had no particular assets except a bland and amiable disposition combined with his reputation as a victorious general. He also had a weakness, one which is frequently found in his profession, the conviction that anyone who has become a millionaire, even by inheritance, is an authoritative person on almost any subject.
Page 988
If elected, he would go to Korea to make peace. Although himself not a neo-isolationist or a reactionary, Eisenhower had few deep personal convictions and was eager to be president. When his advisers told him that he must collaborate with the Radical Right, he went all the way, even to the extent of condoning McCarthy's attack on General Marshall when he, under McCarthy's pressure, removed a favorable reference to Marshall from a Wisconsin speech.
Eisenhower allotted the functions of government to his Cabinet members ("eight millionaires and a plumber").
Page 991
Attorney General Herbert Brownell confided to a businessmen's luncheon in Chicago that President Truman, knowing that Harry Dexter White was a Russian spy, had promoted him from assistant secretary of the treasury to executive director of the U.S. Mission to the International Monetary Fund in 1946. The House Committee on Un-American activities at once issued a subpoena to the ex-President to testify which was ignored.
McCarthy's attacks on the U.S. Information Agency overseas libraries led to burning of books like Tom Sawyer and Robin Hood as subversive (Robin Hood stole from the rich and gave to the poor, clearly a Communist tactic).

Page 992
Dulles publicly announced the conception of "massive retaliation" before the Council on Foreign Relations on January 12, 1954.
Page 995
W.L. Borden wrote a letter to J. Edgar Hoover stating that "J.

Robert Oppenheimer is an agent of the Soviet Union." This charge was supported by a biased rehash of all the derogatory stories about Oppenheimer and was made up of wild charges which no responsible person has ever been willing to defend." On the basis of this letter and at the direct order of President Eisenhower, Chairman Strauss suspended Oppenheimer's security clearance.

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Broadest of the three narrowing circles of outlook was a violent neurotic rebellion of harassed middle-class persons against a long-time challenge to middle-class values arising from depression, war, insecurity, science, foreigners, and minority groups of all kinds.

Public opinion always supported large defence forces.

Public opinion gave much less support to foreign aid.

These statements based on public opinion polls.

THE RISE OF KHRUSHCHEV, 1953-1958

Page 1009

Immediately after Stalin's death, the "collective leadership" was headed by Malenkov, Beria and Molotov. Malenkov supported a policy of relaxation with increased emphasis on production of consumers goods and rising standards of living, as well as increased efforts to avoid any international crises which might lead to war; Beria supported a "thaw" in internal matters, with large-scale amnesties for political prisoners as well as rehabilitation of those already liquidated; Molotov continued to insist on the "hard" policies of Stalin with no relaxation of domestic tyranny.

Page 1010

Wild rumors and and some relaxation, at Beria's behest, in East Germany, gave rise to false hopes and on June 16, 1953, these workers rose up against the Communist government. These uprising were crushed with the full power of the Soviet occupation armored divisions. Using this as an excuse, the Kremlin leaders suddenly arrested Beria and shot him.

The overthrow of the master of terror was followed by an extensive curtailment of the secret police and its powers. Secret courts were abolished.

Page 1011

The gradual elimination of Molotov found Khrushchev as the champion of "thaw" in the Cold War.

Page 1012

Khrushchev's six-day visit to Tito is of great importance because it showed Russia in an apologetic role for a major past error and because it reversed Stalin's rule that all Communist parties everywhere must follow the Kremlin's leadership such that "differences in the concrete application of Socialism are the exclusive concern of individual countries." En route home, he stopped in Sofia and place the fuse in another, even larger, stick of dynamite, by a secret denunciation of Stalin personally as a bloodthirsty tyrant. Back in Moscow, Khrushchev won over the majority by arguing that the loyalty of the satellites, and especially their vital economic cooperation, could be ensured better by a loose leash than by a club.

Page 1013

The Russians spoke favorably about disarmament which, to them, meant total renunciation of nuclear weapons and drastic cuts in ground forces, a combination which would make the United States very weak against Russia while leaving Russia still dominant in Europe.

Page 1012

The Geneva Conference discussions were conducted in an unprecedented atmosphere of friendly cooperation which came to be known as the "Geneva spirit" and continued for several years and was never completely overcome even when matters were at their worst

following the U-2 incident of 1960 and the Cuban crisis of 1962.
Page 1016

At the Twentieth Party Congress in February 1956, the first speech of 50,000 words delivered by Khrushchev over seven hours urged the need for coexistence with the West and references to the possibility of peaceful rather than revolutionary change from capitalism to Socialism.

The real explosion came at a secret all-night session on July 24 in a 30,000 word speech where Khrushchev made a horrifying attack on Stalin as a bloodthirsty and demented tyrant who had destroyed tens of thousands of loyal party members on falsified evidence. The full nightmare of the Soviet system was revealed.
Page 1017

A few passages from this speech:

"This concept "enemy of the people" eliminated any possibility of rebuttal. Usually, the only evidence used, against all the rules of modern legal science, was the confession of the accused, and as subsequent investigation showed, such "confessions" were obtained by physical pressure on the accused. The formula "enemy of the people" was specifically introduced for the purpose of physically annihilating these persons.

How is it that a person confesses to crimes that he has not committed? Only in one way - by application of physical pressure, tortures, taking away of his human dignity.
Page 1019

The "secret speech" also destroyed Stalin's reputation as a military genius:

"Stalin said that the tragedy of the war resulted from the unexpected attack by the Germans. This is completely untrue. Churchill warned Stalin that the Germans were going to attack. Stalin took no had and warned that no credence be given to information of this sort not to provoke a German invasion. Had our industry been mobilized properly and in time to supply the army, our wartime losses would have been decidedly smaller.

Very grievous consequences followed Stalin's destruction of many military commanders during 1937-1941 because of his suspiciousness and false accusations. During that time, leaders who had gained military experience in Spain and the Far East were almost completely liquidated.
Page 1021

Stalin's 1948 "Short Biography" is an expression of most dissolute flattery, making a man into a god, transforming him into an infallible sage, "the greatest leader and most sublime strategist of all times and nations." We need not give examples of the loathsome adulation filling this book. They were all approved and edited by Stalin personally. He added "Although he performed his task of leader of the people with consummate skill and enjoyed the unreserved support of the whole Soviet people, Stalin never allowed his work to be marred by the slightest hint of vanity, conceit, or self-adulation." I'll cite one more insertion by Stalin: "Comrade Stalin's genius enabled him to divine the enemy's plans and defeat them. The battles in which Comrade Stalin directed the Soviet armies are brilliant examples of operational military skill." "
Page 1022

By directing all the criticism of Stalin personally, he exculpated himself and the other Bolshevik survivors who were fully as guilty as Stalin was - guilty not merely because they acquiesced in Stalin's atrocities from fear, as admitted in Khrushchev's speech, but because they fully cooperated with him.

A study of Khrushchev's life shows that he defended Stalin's acts which caused the deaths of millions. The fault was not merely with

Stalin; it was with the system, it was with Russia.

The more completely total and irresponsible power is concentrated in one man's hands, the more frequently will a monster of sadism be produced.

The very structure of Russian life drove Khrushchev, as it had driven Stalin, to concentrate all power in his own hands. Neither man could relax halfway to power for fear that someone else would continue on, seeking the peak of power. The basis of the whole system was fear and like all neurotic drives in a neurotic system, such fear could not be overcome even by achievement of total power. That is why it grows into paranoia as it did with Ivan the Terrible, Peter the Great, Paul I, Stalin and others.

Page 1031

Having failed to block Khrushchev's economic plans, his rivals in the Presidium were reduced to a last resort, they had to get rid of the man himself. At a Presidium meeting on June 18, 1957, the motion was made to remove Khrushchev as the first party secretary. The discussion grew violent with Malenkov and Molotov attaching and Khrushchev defending himself. He was accused of practicing a "cult of personality" and of economic mismanagement. The vote was 7-4 against him with Mikoyan, Kirichenko and Suslov his only supporters. He was offered the reduced position of minister of agriculture.

Page 1032

Khrushchev refused to accept the result, denying that the Presidium had the authority to remove a first secretary, and appealing to the Central Committee. The members of this larger group joined in the discussions as they arrived while Khrushchev's supporters sought to delay the vote until his men could come in from the provinces. Marshall Zhukov provided planes to bring in the more distant ones. The discussion became bitter when Zhukov threatened to produce evidence that Malenkov and Molotov had been deeply involved in the bloody purges of 1937. Madame Furtseva, an alternate member of the Presidium, filibustered with a speech for six hours. Eventually, there were 309 members present. When the vote was finally taken, Khrushchev's supporters voted for him solidly and his removal, already voted by the Presidium, was reversed. Khrushchev at once counterattacked. He moved and carried the expulsion from the Presidium of Malenkov, Molotov, Kaganovich and Shepilov for "anti-party" activities. Then came the election of a new Presidium with fifteen full members instead than the previous eleven, and nine alternates instead of the previous six.

This change was Khrushchev's most smashing personal victory and the most significant event in Russia's internal history. It led Khrushchev to a position of political power more complete than Stalin's had been although it was clear that Khrushchev would never be allowed to abuse his power the way Stalin had done.

Page 1033

Khrushchev did not rest on his oars. During the summer of 1957, he made notable concessions to the peasants (ending compulsory deliveries from products of their personal plots), slammed down the lid on freedom of writers and artists, pushed vigorously both the "virgin lands" scheme and the decentralization of industry, and worked to curtail the growing autonomy of the armed forces and revived trade unions into the new regional economic councils.

Page 1034

Russian objection to city-bombing or to strategic terror of the V-2 kind as ineffective and a waste of resources was undoubtedly sincere.

The Soviet Union has no idea of being able to achieve military victory over the United States simply because they have no method of occupying the territory of the United States at any stage in a war.

Page 1035

They are unlikely to use nuclear weapons first although fully prepared to resort to them once they are used by an enemy.

Page 1036

However such a war is regarded by the Soviet leaders as highly undesirable while they, in a period of almost endless cold war, can seek to destroy capitalist society by nonviolent means. This theory of "nibbling" the capitalist world to death is combined with a tactic which would resist "capitalist imperialism" by encouraging "anti-colonialism."

Stalin and Dulles saw the world largely in black-and-white terms: who was not with them was obviously against them.

Page 1037

Stalin did not see the possibility of colonial areas becoming non-Communist and non-colonial independent states and rebuffed the local native groups. Khrushchev did the opposite.

Page 1038

This shift in the Soviet attitude toward neutralism was helped by Dulles' refusal to accept the existence of neutralism. His rebuffs tended to drive those areas which wanted to be neutral into the arms of Russian because the new nations of the developing Buffer Fringe valued their independence above all else. The Russian acceptance of neutralism may be dated about 1954 while Dulles still felt strongly adverse to neutralism four or five years later. This gave the Soviet Union a chronological advantage to compensate for its many disadvantages in the basic struggle to win the favor of the neutrals.

THE COLD WAR IN EASTERN AND SOUTHERN ASIA, 1950-1957

Page 1039

By 1939, there was only one independent state in southeast Asia: Siam. Thus all southeast Asia, except Thailand, was under the colonial domination of five Western states in 1939.

French Indochina emerged from Japanese occupation as the three states of Vietnam, Laos, and Cambodia, each claiming independence. Efforts by the European Powers to restore their prewar rule led to violent clashes with the supporters of independence. These struggles were brief and successful in Burma and Indonesia but were very protracted in Indochina.

Page 1042

In all these areas, native nationalists were inclined to the political Left, if for no other reason than the fact that the difficulties of capital accumulation and investment to finance economic improvements could be achieved only under state control. In some cases, such Communism may have been ideological but inmost cases, it involved little more than the desire to play off the Soviet Union and China against the Western imperialist Powers.

Page 1042

A communist revolt in the Philippines had already begun and was joined by similar uprisings in Burma, Indonesia, and Malaya. Most of these revolts took the form of agrarian agitations and armed raids by Communist guerrilla jungle fighters. Since the operated on a hit-and-run basis and had to live off the local peasantry, their exploitation of peasant life eventually made them decreasingly welcome to this very group for whom they pretended to be fighting.

In the Philippines, the rebels were smashed in 1953. In Indonesia, Sukarno repressed the insurrection and executed its leaders. In Malaya, the Communists were systematically hunted down and destroyed by British troops. In Burma, they weren't eliminated until 1960.

The real problem was Indochina. There, the French Army was uncompromising and Communist leadership was skillful. As a result, the

struggle became part of the Cold War. The Malay peninsula is dominated by a series of mountain ranges with their intervening rivers running southward from Chinese Yunnan. These rivers fan out into fertile alluvial deltas which produce surplus foods for undemanding peoples.
Page 1043

Indochina brought considerable wealth to France. After the Japanese withdrawal, the Paris government was reluctant to see this wealth, chiefly from the tin mines, fall into native groups and by 1949, decided to use force to recover the area.

Opposed to the French effort was Ho Chi Minh, a member of the French Communist Party. Ho had set up a coalition government under his Viet Minh Party and proclaimed independence for Vietnam (chiefly Tonkin and Annam) in 1945, while French troops, in a surprise coup, seized Saigon in the south. Ho received no support from the Kremlin.

At first, Ho sought support from the United States but after the establishment of Red China in 1949, he turned to that new Communist state for help. Mao's government was the first state to give Vietnam diplomatic recognition (January 1950) and at once began to send military supplies and guidance. Since the U.S. was granting extensive aid to France, the struggle in Vietnam became, through surrogates, a struggle between the United States and China. In world opinion, this made the U.S. the defender of European imperialism against anti-colonial native nationalism.

During this turmoil, independent neutralist governments came into existence in Laos and Cambodia. Both states accepted aid from whoever would give it and both were ruled by an unstable balance of pro-Communists, neutralists, and pro-Westerners, all with armed supporters. On the whole, the neutralist group was largest and the pro-Western was the smallest but could obtain support from America's wealth. The decisive influence was that the Communists were prepared to accept and support neutralism years before Dulles would condone it.
Page 1044

The readiness of Dulles and the French Army to force a showdown in Vietnam was unacceptable to the British and many in France. Out of this came a Soviet suggestion for a conference on Indochina in Geneva.

By early 1954, the Communist guerrillas were in control of most of northern Indochina, were threatening Laos, and were plaguing villages as far south as Saigon. About 200,000 French troops and 300,000 Vietnamese militia were tied in knots by about 335,000 Viet Minh guerrillas. France was being bled to death with nothing to show for it.

By the end of March 1953, the outer defences of the French strong point at Dien Bien Phu were crumbling. The French chief of staff found Dulles ready to risk all-out war with Red China by authorizing direct American intervention in Indochina. As usual, Dulles thought that wonders could be achieved by air strikes alone against the besiegers of Dien Bien Phu and for a few day, at Dulles' prodding, the United States tottered "on the brink of war." Dulles proposed "a united action policy:" "If Britain would join the United States and France would agree to stand firm, the three Western states could combine with friendly asian nations to oppose communist forces.
Page 1045

President Eisenhower agreed but his calls to Churchill and Eden found the British government opposed to the adventure because the Sino-Soviet Treaty of 1950 bound Russia to come to the assistance of China if it were attacked by the United States as Dulles contemplated.

During the 1954 Far Eastern Geneva Conference, two American aircraft carriers, loaded with atomic weapons, were cruising the South China Sea, awaiting orders from Washington to hurl their deadly bombs at the Communist forces besieging the 15,000 exhausted troops trapped at Dien Bien Phu. In Washington, Admiral Radford was vigorously

advocating such aggressive action on a generally reluctant government. In Paris, public outrage was rising over Indochina where the French had expended 19,000 lives and $8 billion without improving matters a particle. The fall of Dien Bien Phy on May 7th led to the fall of the French government. The new prime minister promised a cease-fire or his own retirement within 30 days. He barely met the deadline.

The Indochinese settlement of July 20, 1954 was basically a compromise, some of whose elements did not appear in the agreement itself. A Communist North Vietnam state was recognized north of the 17th parallel and the rest was left in three states: Laos, Cambodia and South Vietnam.

The new state system was brought within the Dulles network of trip-wire pacts on September 8, 1954 when Britain, France, Australia, New Zealand, Pakistan, Thailand, Philippines and the U.S. formed the South-East Asia Treaty Organization (SEATO) and extended their protection to Laos, Cambodia and South Vietnam.

The Geneva agreement was to neutralize the Indochina states but was apparently not acceptable to the Dulles brothers and any possible stability in the area was soon destroyed by their activities, especially through the Central Intelligence Agency (CIA) seeking to subvert the neutrality of Laos and South Vietnam by channeling millions in American funds to Right-wing army officers, building up large military forces, rigging elections, and backing reactionary coups d'etat.

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These techniques might have been justified in the eyes of the CIA if they had been successful but, on the contrary, they alienated the mass of the natives in the area, brought numerous recruits to the Left, gave justification for Communist intervention from North Vietnam, disgusted our allies in Britain, France, Burma, India and elsewhere, and by 1962 had almost destroyed the American image and position in the area.

In Laos, the chief political figure was Prince Phouma, leader of the neutralist group, who tried to keep a balance between the Communist Pathet Lao on his Left and the American-subsidized politicians and militarists led by General Nosavan on his Right. American aid was about $40 million a year of which about $36 million went to the army. This was used, under American influence, as an anti-neutralist rather than an anti-Leftist influence culminating in a bungled army attack on two Pathet Lao battalions in 1959 and openly rigged elections in which all the Assembly seats were won by Right-wing candidates in 1960. In August 1960, an open revolt in behalf of the neutralist Phouma game rise to a Right-wing revolution led by General Nosavan. This drove the neutralists in the arms of the Pathet Lao.

The SEATO Council refused to support the American position, the Laotian army was reluctant to fight, and the American military mission was soon involved in the confused fighting directly.

The American bungle in Laos was repeated, with variations, elsewhere in southern and southeastern Asia. In South Vietnam, American aid, largely military, amounted to about two thirds of the country's budget, and by 1962, it had reached $2 billion. Such aid, which provided little benefit for the people, corrupted the government, weakened the swollen defense forces, and set up a chasm between the rulers and people which drove the best of the latter Leftward, in spite of the exploitative violence of the Communist guerrillas. A plebiscite in 1955 was so rigged that the American-supported candidate won over 98% of the vote. The election of 1960 was similarly managed, except in Saigon, the capital, where many people refused to vote. As might have been expected, denial of a fair ballot

led to efforts to assassinate the American-sponsored President, Diem, and gave rise to widespread discontent which made it possible for the Communist guerrillas to operate throughout the country. The American-sponsored military response drove casualties to a high sustained figure by 1962 and was uprooting peasantry throughout the country in an effort to establish fortified villages which the British had introduced with success in Malaya.

Page 1047

These errors of American policy, which were repeated in other places, arose very largely from two factors:

1) American ignorance of local conditions which were passed over in animosity against Russia and China;

2) American insistence on using military force to overcome local neutralism which the mass of Asiatic people wanted.

The American militarization of both Thailand and South Vietnam was used to increase pressure on Cambodia which was driven to seek support for its independence from China and Russia.

North Vietnam had a deficiency of food while South Vietnam, like all delta areas, is a zone of rice surplus and thus a shining target for North Vietnamese aggression.

The collapse of the world price of rice at the end of the Korean War left Burma with an unsellable surplus of almost two million tons. Within the next three years, Burma signed barter agreements with Red China and Soviet Europe by which Burma got rid of a third of its surplus each year in return for Communist goods and technical assistance. These returns were so poor in quality, high in price and poorly shipped that Burma refused to renew the agreements in 1958.

SOUTHERN ASIA

Farther west, in southern Asia (correctly called the Middle East from the Persian Gulf to Burma) American bungling also opened may opportunities for Soviet penetration which the Soviets failed to exploit.

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India was determined to be neutral; Pakistan was willing to be an ally of the United States.

Page 1049

The partition of India before independence in 1947, as in Palestine and earlier in Ireland, received strong impetus from the Round Table Group, and in all three cases, it led to horrors of violence. In India's case, the partition was a butchery rather than a surgical process. Imposed by the British, it cut off two areas in northwestern and northeastern India to form a new Muslim state of Pakistan (cutting right through the Sikhs in the process). The two new nations began under two new leaders. In the post-partition confusion, minorities on the wrong sides of the lines sought to flee, as refugees, to India or Pakistan, while the Sikhs sought to establish a new homeland by exterminating Muslims in East Punjab. In a few weeks, almost 200,000 were killed and twelve million were forced to flee as refugees.

The two sections of Pakistan were separated from each other by 1,100 miles of India territory, its boundaries irrational, its economic foundations torn to shreds by the partition.

Page 1050

In 1958, martial law was established and General Khan became president. Under military rule, a sweeping land-reform program restricted owners to 500 irrigated or 1000 non-irrigated acres with the surplus distributed to existing tenants or other peasants. Former landlords received compensation in long-term bonds.

Page 1052

The American insistence on the non-committed nations adopting anti-Soviet lines opened the way for the Soviet to pose as the friend

of such nations by supporting their neutralism.
Page 1053
     At the end of World War II, about 80 percent of Iran's population were peasants. Four fifths of the land was almost entirely useless, being either mountainous or arid. Moreover, the peasants who tilled the land were much oppressed by heavy rents to absentee landlords who also controlled, as separate rights, essential access to water. Only about a seventh of the land was owned by peasants who worked it. Peasants retained little more than a fifth of what they produced.
     The shah has shifted the basis of his support from the elite landed group to this growing middle class.
     Before 1914, the shah sought to raise funds for his personal use by selling concessions and monopolies to foreign groups. Most of these were exploitive of the Iranian peoples. Of these, the most important was the concession for petroleum which came into possession of the new Anglo-Persian Oil Company which came to be controlled, through secret stock ownership, by the British government.
Page 1054
     At the end of World War I, Iran was a battleground between Russian and British armed forces. By 1920, the withdrawal of British forces left the anti-Bolshevik Russian Cossack Brigade as the only significant military force in the country. The chief Iranian officer in that force, Reza Pahlavi, in the course of 1921-1925 gradually took over control of the government and eventually deposed the incompetent 28-year-old Shah Ahmad.
     Pahlavi's chief aim was to break down tribalism and localism. To this end, he defeated the autonomous tribes, settled nomadic groups in villages, shifted provincial boundaries to break up local loyalties, created a national civil service and police force, established national registration with identity cards for all, and used universal conscription to mingle various groups in a national army.
     All these projects needed money and the chief resource, oil, was tied up completely in the concession held by the AIOC with the inevitable result that it became the target of the Iranian nationalist desire for traditional development funds. The older Iranian elite would have been satisfied with a renegotiated deal but the newer urban groups demanded the complete removal of foreign economic influence by nationalization of the petroleum industry.
Page 1056
     By 1950, the Shah put his prime minister in to force through the supplemental agreement. Opposing groups introduced nationalization bills. Gradually, the nationalization forces began to coalesce about a strange figure, Mr. Muhammad Mossadegh, with a doctorate in Economics. Politically, he was a moderate but his strong emotional appeal to Iranian nationalism encouraged extreme reactions among his followers.
     The company insisted that its status was based on a contractual agreement which could not be modified without its consent. The British government maintained the agreement was a matter of international public law which it had a right to enforce. The Iranian government declared it had the right to nationalize an Iranian corporation operating under its law on its territory, subject only to adequate compensation.
     The nationalist arguments against the company were numerous:
1) It had promised to train Iranians for all positions possible but had only used them in menial tasks, trained few natives and employed many foreigners.
2) The company had reduced its payments to Iran, which were based on profits, by reducing the amount of its profits by bookkeeping tricks. It sold oil at very low prices to wholly-owned subsidiaries outside Iran or to the British Navy, allowing the former to resell at world

prices so that AIOC made small profits, while the subsidiaries made large profits not subject to the Iranian royalty obligations. Iran believe that all profits should fall under the obligations. but as late as 1950, AIOC admitted that the accounts of 59 such dummy corporations were not included in AIOC accounts.

3) AIOC generally refused to pay Iranian taxes, especially income tax but paid such taxes to Britain; at the same time, it calculated the Iranian profit royalties after such taxes so that the higher British taxes went, the less the Iranian payment became. Thus, Iran paid income tax to Britain. In 1933, AIOC paid #305,000 in British taxation and #274,000 in Iranian taxes. In 1948, the two figures were #28.3 million to Britain and #1.4 million to Iran.

Page 1057

4) The payment to Iran was also reduced by putting profits into reserves or into company investments outside Iran, often in subsidiaries, and calculating the Iranian share only on the profits distributed as dividends. Thus in 1947, when profits were really #40.5 million, almost #15 million went to British income taxes, over #7 million to stockholders, and only #7 million to Iran. If the payment to Iran had been calculated before taxes and reserves, it would have received at least #6 million more that year.

5) AIOC's exemption from Iranian customs deprived Iran of about #6 million a year.

6) The company drew many persons to arid and uninhabited areas and then provided very little of the costs of housing, education, or health.

7) AIOC as a member of the international oil cartel reduced its oil production and thus reduced Iran's royalties.

8) AIOC continued to calculate its payments to Iran in gold at #8.1 per ounce for years after the world gold price had risen to #13 an ounce while the American Aramco in Saudi Arabia raised its gold price on demand.

9) AIOC's monopoly prevented Iran developing other Iranian oil fields.

As a consequence of all these activities, the Iranian nationalists of 1952 felt angered to think that Iran had given up 300 million tons of oil over fifty years and obtained about #800 million in profits.

The Iranian opposition to nationalization was broken in 1951 when the prime minister was assassinated. The nationalization bill was passed and at the request of the Majlis, the shah appointed Mossadegh prime minister to carry it out. This was done with considerable turmoil which included strikes by AIOC workers against mistimed British wage cuts, anti-British street riots and the arrival of British gun-boats at the head of the Persian Gulf. Rather than give up the enterprise or operate it for the Iranian government, AIOC began to curtail operations and ship home its engineers. In May 1951, it appealed to the International Court of Justice in spite of Iranian protests that the case was a domestic one, not international. Only in July, 1952, did the court's decision uphold Iran's contention by refusing jurisdiction.

Page 1058

At first, the U.S. supported Iran's position fearing British recalcitrance would push Iran toward Russia. However it soon became apparent that the Soviet Union, while supporting Iran's position, was not going to interfere. The American position then became increasingly pro-British and anti-Mossadegh. This was intensified by pressure from the international petroleum cartel comprising the seven greatest oil companies in the world.

As soon as Britain lost its case in the International Court of Justice, it put into effect a series of reprisals against Iran which rapidly crippled the country. Iranian funds were blocked; its

purchases in British controlled markets were interrupted; its efforts to sell oil abroad were frustrated by a combination of the British Navy and the world oil cartel (which closed sales and distribution facilities to Iranian oil). These cut off a substantial portion of the Iranian government's revenues and forced a drastic curtailment of government expenditures.

Page 1059

Mossadegh broke off diplomatic relations with the British, deported various economic and cultural groups, and dismissed both the Senate and the Iranian Supreme Court which were beginning to question his actions.

By that time, almost irresistible forces were building up against Mossadegh, since lack of Soviet interference gave the West full freedom of action. The British, the AIOC, the world petroleum cartel, the American government and the older Iranian elite led by the shah combined to crush Mossadegh. The chief effort came from the CIA under the personal direction of Allen Dulles, brother of the Secretary of State. Dulles, a former director of the Schroeder Bank in New York. It will be remembered that the Schroeder Bank in Cologne helped to arrange Hitler's accession to power as chancellor in January 1933.

In the Near East, the mobs are easily roused and directed by those who are willing to pay and Dulles had the unlimited secret funds of the CIA. From these he gave $10 million to Colonel H. Norman Schwartzkopf who was in charge of training the Imperial Iranian Gendarmerie and this was judiciously applied in ways which changed the mobs tune. The whole operation was directed personally by Dulles from Switzerland.

In August Mossadegh held a plebiscite to approve his policies. The official vote was about two million approvals against twelve hundred disapprovals but his days were numbered. On August 13th, the Shah precipitated the planned anti-Mossadegh coup by naming General Zahedi as prime minister and sent a messenger dismissing Mossadegh. The latter refused to yield and called his supporters into the streets where they rioted against the Shah who fled with his family to Rome. Two days later, anti-Mossadegh mobs, supported by the army, defeated Mossadegh supporters. He was forced out of office and replaced by General Sahedi. The shah returned from Italy on August 22nd.

Page 1060

The fall of Mossadegh ended the period of confusion. From 1953 on, the shah and the army, backed by the conservative elite, controlled the country and the docile Majlis. Two weeks after the shah's countercoup, the U.S. gave Iran an emergency grant of $45 million, increased its economic aid payment to $23 million and began to pay $5 million a month in Mutual Security funds. In return, Iran became a firm member of the Western bloc. The Communist Tudeh Party was relentlessly pursued after 1953.

By 1960, the shah tried a program of agrarian reform which sought to restrict each landlord's holdings to a single village, taking all excess lands for payments spread over 10 years and granting the lands to the peasants who worked them for payments over 15 years. The shah's own estates were among the first to be distributed but by the end of 1962 over 5000 villages had been granted to their peasants.

In the meantime, the oil dispute was settled and the incomes to Iran were considerably increased averaging about $250 million or more a year.

TRAGEDY AND HOPE Chapters XIX-XX
by Dr. Carroll Quigley

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CHAPTER XIX: THE NEW ERA, 1957-1964

THE GROWTH OF NUCLEAR STALEMATE

Page 1088

Dulles refused to recognize the right of anyone to be neutral and tried to force all states to join the American side of the Cold War or be condemned to exterior darkness.

Page 1090

The so-called "missile gap" was a mistaken idea for the U.S. was in a condition of "nuclear plenty" and of "overkill capacity" that posed a serious problem for the Soviet Union. It was, strangely enough, just at that time (end of 1957) that two American studies (the Gaither Report and the Special Studies Project of the Rockefeller Brothers Fund) suggested the existence of a missile gap or inferiority in missile capacity of the United States compared to the Soviet Union based on the overemphasis on the "size" of Soviet rocket boosters. In this pleasant period of self-deception, the Soviet Union entered upon an unofficial international suspension of nuclear bomb testing from 1958 until 1961.

Page 1097

As a result of NASA's $5 billion budget, the educational system was brought into the tempestuous atmosphere of the frantic American marketplace and was being ransacked from the highest levels down to high school and even below for talented, trained, or merely eager people. As the demands for such people grew and their remunerations and opportunities increased, the substantial minority who were not talented, trained or eager found fewer and fewer opportunities to make a living and began to sink downward toward a steadily growing lower class of social outcasts and underprivileged, the socially self-perpetuating group of the impoverished.

Page 1098

In 1959, Red China began making increasingly unfavorable comments about Khrushchev's doctrines of "peaceful coexistence with capitalism" and the "inevitable victory of Socialism without war." He ruled out the need for war and the Soviet Union was willing to reach complete disarmament supervised by mutual controls including aerial photography.

Page 1101

As late as 1960, only 38,000 man-days of labor were lost by strikes and lockouts in West Germany compared to almost half a million in the Netherlands, 3 million in the U.K. and 19 million in the U.S.

In Germany in 1958, eight great trusts still controlled 75 percent of crude steel production, 80 percent of raw iron, 60 percent of rolled steel, and 36 percent of coal output.

The ten percent increase each year in the West German gross national product was something that could not be denied or disbelieved.

Page 1102

In East Germany in 1960, almost a million farmers were forced into less than 20,000 collective farms by methods of violence and social pressure similar to those Stalin had used. And the consequences were similar: agricultural production collapsed. Shortages of food were soon followed by other shortages.

Page 1103

Khrushchev's talk about "peaceful co-existence" was sincere and he sincerely wished to divert the Communist-Capitalist struggle into non-violent areas. Thus he was sincere in his disarmament suggestions.

Page 1105

Metternich said, "A diplomat is a man who never allows himself the pleasure of a triumph," and does so simply because it is to the interest of the stronger that an opponent who recognizes the victor's strength and is reasonable in yielding to it not be overthrown or replaced by another ruler who is too ignorant or too unreasonable to do so.

Page 1108

After Russia backed down on the Cuban missile crisis, the White House received a long and confused letter from Khrushchev whose tone clearly showed his personal panic and, to save his reputation, it was not released to the public. The next morning, the Soviet Foreign Office published a quite different text, suggesting that a deal be made dismantling both the American missile sites in Turkey and the Soviet missile sites in Cuba. To those inside both governments, this was recognized as a Soviet surrender since they knew that the Turkish sites were obsolete and were already scheduled to be dismantled. It was rejected by the White House because it would have represented to the world a surrender of Turkey. Instead, the White House replied to an offer to remove the Russian missiles if we would lift the blockade and promise not to invade Cuba.

THE DISINTEGRATING SUPERBLOCS

LATIN AMERICA: A RACE BETWEEN DISASTER AND REFORM

Page 1109

The Brazilian cost of living rose 40% in 1961, 50% in 1962, and 70% in 1963.

Page 1110

Latin America is not only poverty-ridden but the distribution of wealth and income is so unequal that the most ostentatious luxury exists for a small group side by side with the most degrading poverty for the overwhelming majority. Four fifths of the population of Latin America get about $53 a year, while a mere 100 families own 90% of the native-owned wealth of the whole area and only 30 families own 72% of that wealth. In Brazil, half of all and is owned by 2.6% of the landowners while 22.5% is owned by only 1/2% of the owners. In Latin America, at least two thirds of the land is owned by 10% of the families.

Page 1111

As things stood in 1960, infant mortality varied between 20% and 35% in different countries.

Page 1112

While such conditions may rouse North American to outrage or humanitarian sympathy, no solution can be found by emotion or sentimentality. The problems are not based on lack of anything but on structural weaknesses. Solutions will not rest on anything that can be done to or for individual people but on the arrangements of peoples. Latin American lacks the outlook that will mobilize its resources in constructive rather than destructive directions.

Obviously, the birthrate must decrease or the food supply must be increased faster than the population. And some provision must be made to provide peasants with capital and know-how before the great landed estates are divided up among them. A more productive organization of resources should have priority over any effort to raise standards of living.

Page 1113

We hear a great deal about Latin America's need for American capital and American know-how, when in fact the need for these is much

less than the need for utilization of Latin America's own capital and know-how. The wealth and income of Latin America, in absolute quantities, is so great and it is so inequitably controlled and distributed that there is an enormous accumulation of incomes, far beyond their consumption needs, in the hands of a small percentage of Latin Americans. Much of these excess incomes are wasted, hoarded, or merely used for wasteful competition in ostentatious social display largely due to the deficiencies of Latin American personalities and character.

The solution is not to redistribute incomes but to change the patterns of character and of personality formation so that excess incomes will be used constructively and not wasted.

Page 1114

At least half the value of American aid has been wiped away by the worsening of Latin America's terms of trade which made it necessary for it to pay more and more for its imports at the same time that it got less and less for its exports made worse by much of the available supply of foreign exchange spent for self-indulgent and non constructive spending abroad or simply to hoard their money in New York, London or Switzerland. The solution must be found in more responsible, more public-spirited, and more constructive patterns of outlook, of money flows, and of political and social security. A similar solution must be found for social deficiencies like inadequate housing, education, and social stability.

Page 1115

An Asian despotism is a two-class society in which a lower class consisting of nine tenths of the population supports an upper ruling class consisting of a governing bureaucracy of scribes and priests associated with army leaders, landlords, and moneylenders. The essential character of an Asian despotism rests on the fact that the ruling class has legal claim on the working masses and possesses the power to enforce these claims.

Page 1119

Arabic boys grow up egocentric, self-indulgent, undisciplined, immature, spoiled, subject to waves of emotionalism, whims, passion, and pettiness. Another aspect of Arabic society is its scorn of honest, steady manual work, especially agricultural work. There is a lack of respect for manual work that is so characteristic of the Pakistani-Peruvian axis. The Bedouin outlook include lack of respect for the soil, for vegetation, for most animals, and for outsiders. These attitudes are to be seen constantly as erosion, destruction of vegetation and wild life, personal cruelty and callousness to most living things, including one's fellow man, and a general harshness and indifference to God's creation.

Page 1120

The ethical sides of Judaism, Christianity and Islam sought to counteract harshness, egocentricity, tribalism, cruelty, scorn of work and one's fellow creatures but these efforts have met with little success.

Page 1122

The method for the reform of Latin America rest in the upper class of that society. Such reform can come about only when the surpluses that accumulate in the hands of the Latin American oligarchy are used to establish more progressive utilization of Latin American resources.

Page 1123

The whole system is full of paradox and contradiction. The obstacle to progress and hope rests in the oligarchy because it controls wealth and power, and also because there is no hope at all unless it changes its ideology.

Page 1124

World War II, by increasing demand for Latin America's mineral and agricultural products, pushed starvation and controversy away from the immediate present. Latin American boomed: the rich got richer; the poor had more children. A few poor became rich, or at least richer. But nothing was done to modify the basic pattern of Latin American power, wealth, and outlook.

Page 1127

Until the 1952 revolution, the Bolivians, mostly of Indian descent, who were treated as second-class persons working as semislaves in the mines or as serfs on the large estates, had a per capita annual outcome of about $100. As might be expected, the majority were illiterate, sullen and discouraged.

Page 1128

The Junta was overthrown in 1952. Paz Estenssoro returned from exile to become president. Pressure from the tin miners and from the peasants forced the new regime to nationalize the mines and to break up many of the large estates. Production costs of tin rose above market price thus wiping out their foreign exchange earnings. Worse, the world price of tin collapsed in 1957.

The problems could hardly be handled because of popular pressures in a democratic country to live beyond the country's income. The final collapse did not occur because of the efforts of President Siles and assistance from the United States.

Page 1129

If any proof were needed that radical reform for sharing the wealth of the few among the many poor is not an easy, or feasible method, Bolivia's hard-working Indians, once hopelessly dull, morose, and sullen, are not bright, hopeful, and self-reliant. Even their clothing is gradually shifting from the older funereal black to brighter colors and variety.

Few contrasts could be more dramatic than that between the Bolivian revolutionary government (in which a moderate regime was pushed toward radicalism by popular pressures and survived, year after year, with American assistance) and the Guatemala revolution where a Communist-inspired regime tried to lead a rather inert population in the direction of increasing radicalism but was overthrown by direct American action within three years (1951-1954).

Guatemala is one of the "banana republics." The retail value of Latin America's part of the world's trade in bananas is several billion dollars a year but Latin America's gets less than 7% of that value. One reason for this is the existence of the United Fruit Company which owns two million acres of plantations in six countries and handles about a third of the world's banana sales. It pays about $145 million a year into the six countries and claims to earn about $26 million profits on its $159 million investment but this profit figure of about 16.6% is undoubtedly far below the true figure. In 1970, 95% of the land held by United Fruit was uncultivated.

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Guatemala, like Bolivia, has a population that consists largely of impoverished Indians and mixed bloods (mestizos). From 1931 to 1944 it was ruled by the dictator Jorge Ubico, the last of a long line of corrupt and ruthless tyrants. When he retired to New Orleans in 1944, free elections chose Juan Jose Arevalo (1945-1950) and Jacobo Arbenz Guzman (1950-1954) as presidents. Reform was long overdue and these two administrations tried to provide it, becoming increasingly anti-American and pro-Communist over their nine-year rule. When they began, civil or political rights were almost totally unknown and 142 persons (including corporations) owned 98% of the arable land. Free speech and press, legalized unions, and free elections preceded the work of reform but opposition from the United States began as soon as it

became clear that the Land Reform Act of June 1952 would be applied to the United Fruit Company. This act called for redistribution of uncultivated holdings above a fixed acreage or lands of absentee owners, with compensation from the twenty year 3 percent bonds equal to the tax value of the lands. About 400,000 acres of United Fruit lands fell under this law and were distributed by the Arbenz Guzman government to 180,000 peasants. This was declared to be a Communist penetration by Allen Dulles, Director of the CIA, which soon found an American-trained and American-financed Guatemalan Colonel, Carlos Castillo Armas, who was prepared to lead a revolt against Arbenz. With American money and equipment, and even some American "volunteers" to fly "surplus" American planes, Armas mounted an attack of Guatemalan exiles from bases in two adjacent dictatorships, Honduras and Nicaragua." Both these countries are horrible examples of everything a Latin American government should not be, corrupt, tyrannical, cruel, and reactionary, but they won the favor of the United States State Department by echoing American foreign policy at every turn. Nicaragua, often a target of American intervention in the past, was decayed, dirty, and diseased under the twenty-year tyranny of Anastasio Somoza (1936-1956). His assassination handed the country over to be looted by his two sons, one of whom became president while the other served as commander of the National Guard.
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From these despotic bases, the CIA-directed assault of Colonel Armas overthrew Arbenz Guzman in 1954 and established in Guatemala a regime similar to that of the Somozas. All civil and political freedoms were overthrown, the land reforms were undone, and corruption reigned. When Armas was assassinated in 1957 and a moderate elected as his successor, the army annulled those elections and held new ones in which one of their own, General Fuentes, was "elected." He liquidated what remained of Guatemala's Socialist experiments by granting these enterprises, at very reasonable prices, to his friends while collecting his own pay of a $1 million a year. Discontent from his associates led to a conservative army revolt but American pressure secured his position. The U.S. could not afford a change of regime since that country was the chief aggressive base for the Cuban exiles' attack on Cuba at the Bay of Pigs in April 1962.

The CIA success in attacking "Communist" Guatemala from dictatorial Nicaragua in 1954 was not repeated in its more elaborate attack on "Communist" Cuba from dictatorial Guatemala in 1962. In fact, the Bay of Pigs must stand as the most shameful event in U.S. history since the end of World War II.

The causes of the Cuban disaster, if we oversimplify, may be organized in terms of two intersecting factors:
1) the personality deficiencies of the Cubans themselves such as their lack of rationality and self-discipline, their emotionalism and corruptibility;
2) the ignorance and ineptitude of the American State Department which seems incapable of dealing with Latin America in terms of the real problems of the area but instead insists on treating it in terms of America's vision of the world, which is to day, America's political preconceptions and economic interests.

Cuba is more Spanish than much of Latin America and only obtained its independence in 1898, two generations later than the rest of Latin America. Then, for over thirty years, until the abrogation of the Platt Amendment in 1934, Cuba was under American occupation or the threat of direct American intervention. It fell under American economic domination by American investments on the island and by becoming deeply involved in the american market, especially for sugar. A local oligarchy of Cubas was built up including an exploitative

landlord group that had not existed previously.

With the establishment of the Good Neighbor Policy in 1933 and ending the threat of American direct intervention, it became possible for the Cubans to overthrow the tyrannical and bloody rule of General Machado which had lasted for eight years (1925-1933).

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The opportunity to begin a series of urgently needed and widely demanded social reforms under Machado's successor, San Martin, was lost when the United States refused to recognize or to assist the new regime. As a result, a ruthless Cuban army sergeant, Fuegencio Batista, was able to overthrow San Martin and begin a ten-year rule through civilian puppets chosen in fraudulent elections, and then directly as president himself. When San Martin was elected president in 1944, he abandoned his earlier reformist ideas and became the first of a series of increasingly corrupt elected regimes over the next eight years. The fourth such election for 1953 was prevented when Batista seized power once again in 1952.

The next seven years were filled with Batista's efforts to hold his position by violence and corruption against the rising tide of discontent against his rule.

One of the earliest episodes in that tide was an attempted revolt by a handful of youths, led by 26-year-old Fidel Castro in eastern Cuba on July 26, 1953. The failure of the rising gave Castro two years of imprisonment and more than a year of exile but at the end of 1956, he landed with a handful of men to begin guerrilla operations. Batista's regime was so corrupt that many segments of the army and middle class were neutral or favorable to Castro's operations. The necessary arms and financial support came from these groups although the core of the movement was made up of peasants and workers led by young middle-class university students.

This Castro uprising was not typical because of Castro's fanatical thirst for power, his ruthless willingness to destroy property or lives in order to weaken the Batista regime, and his double method of operation, from within Cuba rather than from abroad and from a rural base, the peasants, rather than the usual urban base, the army, used by most Latin American rebels.

On New Year's day of 1959, Castro marched into Havana. Within two weeks, the supporters of the Batista regime and dissident elements in Castro's movement began to be executed by firing squad.

For a year, Castro's government carried on reforms aimed at satisfying the more obvious demands of the dispossessed groups. Military barracks were converted into schools; the militia was permanently established to replace the regular army; rural health centers were set up; a full-scale attack was made on illiteracy; new schools were constructed; urban rents were cut in half; utility rates were slashed; taxes were imposed on the upper classes; the beaches, once reserved for the rich, were opened to all; and a drastic land reform was launched.

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These actions were not integrated into any viable economic program but they did spread a sense of well-being in the countryside although they curtailed the building boom in the cities, largely rooted in American investment, and they instigated a flight of the rich from the island to refuge in the U.S.

Castro sought to export revolution to the rest of Latin America. Arms and guerrilla fighters were sent, and lost, in unsuccessful efforts to invade Panama, Nicaragua, Haiti, and the Dominican Republic. Failure of these turned him to methods of more subtle penetration, largely worked by propaganda and the arming and training of small subversive groups, especially where democratic or progressive regimes seemed to be developing as in Venezuela or Colombia. At the

same time, an unsuccessful effort was made to persuade all Latin America to form an anti-Yankee front.

Although the U.S. had promised in 1959 to follow a policy of non-intervention toward Cuba, these changes within the island and a visit of Soviet Deputy Premier Mikoyan in February 1960 forced a reconsideration of this policy. The Mikoyan agreement promised Cuba petroleum, arms and other needs for its sugar followed by establishment of diplomatic relations with the Soviet Union in May and with Red China later in the year. The Soviet embassy in Havana became a source of Communist subversion for all Latin America almost at once, while in September Khrushchev and Castro jointly dominated the annual session of the General Assembly of the U.N. in New York.

Castro obtained petroleum for Cuban sugar. When he insisted that American-owned refineries in Cuba process this oil, they refused and were at once seized by Castro.

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The U.S. struck back by reducing the Cuban sugar quota in the American market which led, step by step, to Castro's sweeping nationalization of foreign-owned factories on the island. The United States retaliated by establishing a series of embargoes on Cuban exports to the U.S. These controversies led Castro into an economic trap similar to that into which Nasser had fallen with Egypt's cotton. Each nationalist leader committed his chief foreign-exchange-earning product (sugar and cotton) to the Soviet Union as payment for Communist (often Czech) arms. This tied these countries to the Soviet Union and deprived them of the chance to use their own source of foreign money for equipment so urgently needed for economic improvement. By December when American diplomatic relations with Cuba were broken off, the Cuban economic decline had begun and soon reached a point where standards of living were at least a third below the Batista level except for some previously submerged groups.

At the end of 1960, the Eisenhower Administration decided to use force to remove Castro. This decision was a major error and led to a totally shameful fiasco. The error apparently arose in the CIA and was based on a complete misjudgment of the apparent east with which that agency had overthrown the Arbenz regime in Guatemala in 1954 by organizing a raid of exiles, armed and financed by the CIA, into Guatemala from Nicaragua. The CIA analyzed this apparently successful coup quite incorrectly,since it assumed that Arbenz had been overthrown by the raiding exiles when he had really been destroyed by his own army which used the raid as an excuse and occasion to get rid of him. But on this mistaken basis, the CIA decided to get rid of Castro by a similar raid of Cuban exiles from Guatemala.

This decision was worse than a crime; it was stupid. A unilateral, violent attack on a neighboring state with which we were not at war, in an area where we were committed to multilateral and peaceful procedures for settling disputes, was a repudiation of all our idealistic talk about the rights of small nations and our devotion to peaceful procedures that we had been pontificating around the world since 1914. It was a violation of our commitment to non-intervention in the Americas and specifically in Cuba. In sequence to our CIA intervention in Guatemala, it strengthened Latin American picture of the U.S. as indifferent to Latin America's growing demand for social reform.

The whole operation, patterned on Hitler's operations to subvert Austria and Czechoslovakia in 1938 was bungled as Hitler could never have bungled anything. The project was very much a Dulles brothers' job and its execution was largely in the hands of the CIA.

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The plan of invasion of Cuba seems to have been drawn on typical

Hitler lines: the expeditionary force was to establish a beachhead in Cuba, set up a government on the island, be recognized by the U.S. as the actual government of Cuba, and ask Washington for aid to restore order in the rest of the island which it did not yet control. The CIA assured President Kennedy that if matters were allowed to go on as they were, Castro would be strengthened in power (which was untrue) and that the invasion would be success because of the Cuban people, led by the anti-Castro underground, would rise against him as soon as they heard of the landing.

The executive committee of Cuban refugees in the U.S., mostly representatives of the older ruling groups in Cuba, were eager to restore the inequitable economic and social system that had existed before Castro. They were alienated from the most vigorous anti-Castro groups in the Cuban underground who had no desire to turn back the clock to the Batista era. The CIA would not cooperate with the anti-Castro underground because it was opposed to their wish for social and economic reform. Accordingly, the CIA launched the invasion without notifying the Cuban underground. Then the attack was bungled.

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This greatly strengthened Castro's prestige in Latin American more than in Cuba itself. This in turn permitted him to survive a deepening wave of passive resistance and sabotage within Cuba itself, chiefly from the peasants to recapture control of the Cuban revolutionary movement.

Page 1138

In May 1961, Castro proclaimed that Cuba would be a socialist state but despite his statements, he was not in any way a convinced Communist or a convinced anything else, but was a power-hungry and emotionally unstable individual, filled with hatred of authority himself, and restless unless he had constant change and megalomaniac satisfactions. His tactical skill, especially in foreign affairs, is remarkable, and shows similarity to Hitler's.

Page 1139

On the whole, the role of the U.S. in Latin America has not been such as to help either patterns or priorities, largely because our concern has been with what seems to be useful or better for us rather than with what would be most helpful to them.

Page 1140

Despite the enthusiasm and energy that make it possible for them to overthrow corrupt and tyrannical regimes,it soon becomes clear that they have little idea what to do once they get into power. As a result, they fall under the personal influence of unstable and ignorant men, the Nassers, the Perons, and the Castros who fall back on emotionally charged programs of hatreds and spectacular displays of unconstructive nationalism that waste time and use up resources while the real problems go unsolved.

A heavy responsibility rests with the United States for this widespread failure to find solutions to problems all the way from Pakistan to Peru. The basic reason for this is that our policies in this great area have been based on efforts to find solutions to our own problems rather than theirs; to make profits, to increase supplies of necessary raw materials, to fight Hitler, to keep out Communism and prevent the spread of neutralism. The net result is that we are now more hated than the Soviet Union and neutralism reveals itself as clearly as it dares through the whole area.

Page 1141

The sole consequence of the Dulles efforts to do the wrong thing along the Pakistani-Peruvian axis has been to increase what he was seeking to reduce: local political instability, increased Communist and Soviet influence, neutralism, and hatred of the U.S.

Although the Dulles period shows most clearly the failures of

American foreign policy in Latin America, the situation was the same, both before and since Dulles. American policy has been determined by American needs and desires and not by the problems of Latin Americans. There are four chief periods in U.S. policy in Latin America in the 20th century:
1) a period of investment and interventionism (until 1933) and was basically a period of American imperialism. American money came as investments seeking profits out of the exploitation of the areas resources. There was little respect for the people themselves and intervention by American military and diplomatic forces was always close at hand as a protection for American profits and investments.
2) the Good Neighbor Policy in 1933 reduced intervention while retaining investment.
3) from 1940 until 1947, our efforts to involved the are in our foreign policy against Hitler and Japan;
4) since 1947, against the Soviet Union.

Both these efforts have been mistakes.

Page 1142

That this failure continued into the 1960s was clear in Washington's joy at the military coup that ejected the left-of-center Goulart government from Brazil in 1964 for that government, however misdirected and incompetent, at least recognized that there were urgent social and economic problems in Brazil demanding treatment. No real recognition that such problems existed was achieved in Washington until Castro's revolution forced the realization.

The formal agreement for the Alliance for Progress aims and attitudes were admirable but required implementation features that were not covered in the Charter itself.

"We, the American Republics, hereby proclaim our decision to unite in a common effort to bring our people accelerated economic progress and broader social justice within the framework of personal dignity and personal liberty. Almost two hundred years ago we began in this hemisphere the long struggle for freedom which now inspires people in all parts of the world. Now we must give a new meaning to that revolutionary heritage. For America stands at a turning point in history. The men and women of this hemisphere are reaching for the better life which today's skills have placed within their grasp. They are determined for themselves and their children to have decent and ever more abundant lives, to gain access to knowledge and equal opportunity for all, to end those conditions which benefit the few at the expense of the needs and dignity of the many."

Page 1144

These were fine words but the methods for achieving these desirable goals were only incidentally established in the Charter. On the whole, it cannot be said that it has been a success. It's achievement has been ameliorative rather than structural, and this alone indicates that it has not been a success. For unless there are structural reforms, its economic development will not become self-sustaining or even manage to keep up with the growth of population on the basis of income per capita.

Page 1145

The failure of the Alliance for Progress to achieve what it was touted to achieve was a result that it was not intended primarily to be a method for achieving a better life for Latin Americans but was intended to be a means of implementing American policy in the Cold War. This became clearly evident at the second Punta del Este Conference in 1962 where Washington's exclusive control over the granting of funds was used as a club to force the Latin American states to exclude Cuba from the Organization of American States. The original plan was to cut off Cuba's trade with all Western Hemisphere

countries. A two-thirds vote was obtained only after the most intense American "diplomatic" pressure and bribery involving the granting and withholding of American aid to the Alliance. Even at that, six countries, Brazil, Mexico, Argentina, Chile, Bolivia, and Ecuador, representing 70% of Latin America's population refused to vote for the American motions.

The aid takes the form not of money which can be used to buy the best goods in the cheapest market but as credits which can be used only in the U.S. Much of these credits goes either to fill the gaps in the budgets or the foreign-exchange balances which provides the maximum of leverage in getting these governments to follow America's lead but provides little or no benefit to the impoverished peoples of the hemisphere.

THE JAPANESE MIRACLE

Page 1148

The post-war agrarian reform redistributed the ownership of land by the government taking all individual land holdings beyond 7.5 acres, all rented land over 2.5 acres, and the land of absentee landlords. The former owners were paid with long-term bonds. In turn, peasants without land or with less than the maximum permitted amount were allowed to buy land from the state on a long-term low-interest-rate basis. Cash rents for land were also lowered. As a result, Japan became a land of peasant owners with about 90% of the cultivated land worked by its owners.

Page 1151

Agrarian reform has driven Communism out of the rural areas and restricted it to the cities, chiefly to student groups.

Page 1153

Under the Czar, Russia produced great surpluses, especially of food.

COMMUNIST CHINA

Page 1159

Previous to the Land Reform Law of 1950, 10% of families owned 53% farm land while 32% owned 78% of the land. This left over two thirds of such families with only 22% of the land. The first stage in agrarian reform had been the "elimination of landlordism." The landlords were eliminated with great brutality in a series of spectacular public trials in which landlords were accused of every crime in the book. At least 3 million were executed and several times that number were imprisoned but the totals may have been much higher. The land thus obtained was distributed to poor peasant families with each obtaining about one-third of an acre.

The second stage sought to establish cooperative farming. In effect, it took away from the peasants the lands they had just obtained. The third stage constituting the basic feature of the "Great Leap Forward" merged the 750,000 collective farms into about 26,000 agrarian communes of about 5,000 families each. This was a social rather than simply an agrarian revolution since its aims included the destruction of the family household and the peasant village. All activities of the members, including child rearing, came under the control of the commune.

Page 1160

The Communist government was not involved in corruption, self-enrichment, and calculated inefficiency as earlier Chinese governments were and had both greater power and greater desire to operate a fair rationing system but the fact remains that the inability of communized agricultural system to produce sufficient food surpluses to support a communized industrial system at a high rate of expansion is now confirmed and the need for all Communist regimes to purchase grain from the Western countries confirms that there is something in the Western pattern of living which does provide a bountiful agricultural

system.
Page 1164
A source of alienation between Moscow and Peking is concerned with the growing recognition that the Kremlin was being driven toward a policy of peaceful coexistence with the U.S. not as a temporary tactical maneuver (which would have been acceptable to China) but as a semipermanent policy since Marxist-Leninist theory envisioned the advanced capitalist states as approaching a condition of economic collapse from "the internal contradictions of capitalism itself." This crisis would be reflected in two aspects: the continued impoverishment of the working class with the consequent growth of the violence of the class struggle in such countries and increasing violence of the imperialist aggressions of such countries toward each other in struggles to control more backward areas as markets for the industrial products that the continued impoverishment of their own workers made impossible to sell in domestic market. The falseness of these theories was fully evident in the rising standards of living of the advanced industrial countries. This evidence of the errors of Marxist-Leninist theories was increasingly clear to the Kremlin, although it could not be admitted, but it was quite unclear to Peking.
Page 1165
Mao Tse-tung, son of a peasant who became wealthy on speculation and moneylending was born in 1893 in Hunan province.
Page 1168
There are at least half a dozen legal, minor political parties in Red China today (1966). These not only exist and are permitted to participate in the governing process in a very minor way, but they are subject to no real efforts at forcible suppression, although they are subject to persistent, rather gentle, efforts at conversion.
Page 1170
French expenditure of $7 billion and about 100,000 lives during the eight-year struggle ended at Geneva in 1954. The Geneva agreements provided that all foreign military forces, except a French training group, be withdrawn from Laos. When the Pathet Lao showed increased strength in the elections of May 1958, the anti-Communist group combined to oust Premier Phouma and put in the pro-Western Sananikone. This government was then ejected and replaced by a Right-wing military junta led by General Nosavan in 1960; but within seven months a new coup led by Kong Le brought Phouma back to office. Four months later, Nosavan once again replaced Phouma by military force. The Communist countries refused to recognize this change and increased their supplies to the Pathet Lao by Soviet airlift.
Page 1172
The Geneva agreement of 1954 had recognized the Communist government of North Vietnam dividing the country at the 17th parallel but this imaginary line could not keep discontent or Communist guerrillas out of South Vietnam so long as the American-sponsored southern government carried on its tasks with corruption, favoritism and arbitrary despotism. These growing characteristics of the South Vietnam government centered around the antics of the Diem family. President Diem's brother Nhu was the actual power in the government heading up a semi-secret political organization that controlled all military and civil appointments. On the Diem family team were three other brothers, including the Catholic Archbishop of Vietnam, the country's ambassador to London, and the political boss of central Vietnam who had his own police force.
While the country was in its relentless struggle with the Vietcong Communist guerrillas who lurked in jungle areas, striking without warning at peasant villages that submitted to the established government or did not cooperate with the rebels, the Diem family

tyranny was engaged in such pointless tasks as crushing Saigon high school agitations by secret police raids or efforts to persecute the overwhelming Buddhist majority and to extend favors to the Roman Catholics who were less than 10% of the population.

When Diem became president in 1955, after the deposition of the pro-French Emperor Bao Dai, the country had just received 800,000 refugees from North Vietnam which the Geneva conference had yielded to Ho Chi Minh's communists, the overwhelming majority of which were Roman Catholics, raising their number to over a million in a population of 14 million. Nevertheless, Diem made these Catholics the chief basis of his power, chiefly recruiting the refugees into various police forces dominated by the Diem family.

Page 1173

By 1955, these were already beginning to persecute the Buddhist majority, at first by harassing their religious festivals and parades but later with brutal assaults on their meetings. An attempted coup by army units was crushed and the Diem rule became increasingly arbitrary.

American military assistance tried to curtail the depredations of the Communist guerrillas. The intensity of the guerrilla attacks steadily increased following Diem's re-election with 88% of the vote. American intervention was also stepped up and gradually began to shift from a purely advisory and training role to increasingly direct participation in the conflict. From 1961 onward, American casualties averaged about one dead a week, year after year. The Communist guerrilla casualties were reported to be about 500 per week but this did not seem to diminish their total number or relax their attacks.

These guerrilla attacks consisted of rather purposeless destruction of peasant homes and villages, apparently designed to convince the natives of the impotence of the government and the advisability of cooperating with the rebels. To stop these depredations, the government undertook the gigantic task of organizing the peasants into "agrovilles" or "strategic hamlets" which were to be strongly defended residential centers entirely enclosed behind barricades. The process, it was said, would also improve the economic and social welfare of the people to give them a greater incentive to resist the rebels. There was considerable doubt about the effectiveness of the reform aspect of this process and some doubt about the defence possibilities of the scheme as a whole. Most observers felt that very little American economic aid ever reached the village level but instead was lost on much higher levels. By the summer of 1963, guerrillas were staging successful attacks on the strategic hamlets and the need for a more active policy became acute.

Page 1175

This final crisis in the story of the Diem family and its henchmen arose from religious persecution of the Buddhists under the guise of maintaining political order. On November 1, 1963, an American-encouraged military coup led by General Minh overthrew the Diem family. A new government with a Buddhist premier calmed down the domestic crisis but was no more able to suppress guerrilla activities.

THE ECLIPSE OF COLONIALISM

Page 1178

The massive economic mobilization for World War II showed clearly that there could be an equally massive post-war mobilization of resources for prosperity.

Page 1184

It is usually not recognized that the whole economic expansion of Western society rests upon a number of psychological attitudes that are prerequisites to the system as we have it but are not often stated explicitly. Two of these may be identified as:

1) future preference and

2) infinitely expandable material demand.

In a sense, these are contradictory since the former implies that Western economic man will make almost any sacrifice in the present for the same of some hypothetical benefit in the future while the latter implies almost insatiable demand in the present. Nonetheless, both are essential features of the overwhelming Western economic system.

Future preference came out of the Christian outlook and especially the Puritan tradition which was prepared to accept almost any kind of sacrifice in the temporal world for the sake of future eternal salvation, willing to restrict their enjoyment of income for the sake of capital accumulation.

The mass production of this new industrial system was able to continue and to accelerate to the fantastic rate of the 20th century so that today, the average middle-class family of suburbia has a schedule of future material demands which is limitless.

Without these two psychological assumptions, the Western economy would break down or would never have started. At present, future preference may be breaking down and infinitely expanding material demand may soon follow it in the weakening process. If so, the American economy will collapse unless it finds new psychological foundations.

Page 1187

In Asia, as is traditional along the Pakistani-Peruvian axis, the structure of societies had been one in which a coalition of army, bureaucracy, landlords, and moneylenders have exploited a great mass of peasants by extortion of taxes, rents, low wages, and high interest rates in a system of such persistence that its basic structure goes back to the Bronze Age empires before 1000 B.C.

CHAPTER XX: TRAGEDY AND HOPE, THE FUTURE IN PERSPECTIVE

THE UNFOLDING OF TIME

Page 1200

Weapons will continue to be expensive and complex. This means that they will increasingly be the tools of professionalized, if not mercenary, forces. All of past history shows that the shift from a mass army of citizen-soldiers to a smaller army of professional fighters leads, in the long run, to a decline of democracy.

Page 1204

When Khrushchev renounced the use of both nuclear war and conventional violence, and promised to defeat the West by peaceful competition, he was convinced that the Soviet Union could out-perform the U.S. because it could, in his opinion, overcome the American lead in the race for economic development that the Socialist way of life would become the model for emulation by the uncommitted nations.

Page 1213

In other economies, when additional demands are presented to the economy, less resources are available for alternative uses. But in the American system, as it now stands, additional new demands usually lead to increased resources becoming available for alternative purposes, notably consumption. Thus if the Soviet Union embraced a substantial increase in space activity, the resources available for raising Russian levels of consumption would be reduced while in America, any increases in the space budget makes levels of consumption also rise.

Page 1214

It does this because increased space expenditures provide purchasing power for consumption that makes available previously unused resources out of the unused American productive capacity.

This unused capacity exists in the American economy because the structure of our economic system is such that it channels flows of funds into the production of additional capacity (investment) without

any conscious planning process or any real desire by anyone to increase our productive capacity. It does this because certain institutions in our system (such as insurance, retirement funds,social security payments, undistributed corporate profits and such) and certain individuals who personally profit by the flow of funds not theirs into investment continue to operate to increase investment even when they have no real desire to increase productive capacity (and indeed many decry it). In the Soviet Union, on the contrary, resources are allotted to the increase of productive capacity by a conscious planning process and at the cost of reducing the resources available in their system for consumption or for the government (largely defence).

Thus the meaning of "costs" and the limitations on ability to mobilize economic resources are entirely different in our system from the Soviet system and most others. In the Soviet economy, "costs" are real costs, measurable in terms of the allotment of scarce resources that could have been used otherwise. In the American system, "costs" are fiscal or financial limitations that have little connection with the use of scarce resources or even with the use of available (and therefore not scarce) resources. The reason for this is that in the American economy, the fiscal or financial limit is lower than the limit established by real resources and therefore, since the financial limits act as the restraint on our economic activities, we do not get to the point where our activities encounter the restraints imposed by the limits of real resources (except rarely and briefly in terms of technically trained manpower, which is our most limited resource).

These differences between the Soviet and American economies are:
1) the latter has built-in, involuntary, institutionalized investment which the former lacks;
2) the latter has fiscal restraints at a much lower level of economic activity which the Soviet system also lacks.

Thus greater activity in defence in the USSR entails real costs since it puts pressure on the ceiling established by limited real resources while greater activity in the American defence or space effort releases money into the system which presses upward on the artificial financial ceiling, pressing it upward closer to the higher, and remote, ceiling established by the real resources limit of the American economy. This makes available the unused productive capacity that exists in our system between the financial ceiling and the real resources ceiling; it not only makes these unused resources available for the government sector of the economy from which the expenditure was directly made but also makes available portions of these released resources for consumption and additional capital investment.

Page 1215

For this reason, government expenditures in the U.S. for things like defence or space may entail no real costs at all in terms of the economy as a whole. In fact, if the volume of unused capacity brought into use by expenditures for these things (that is, defence and so on) is greater than the resources necessary to satisfy the need for which the expenditure was made, the volume of unused resources made available for consumption or investment will be greater than the volume of resources used in the governmental expenditure and this additional government effort will cost nothing at all in real terms, but will entail "negative" real costs. (Our wealth will be increased by making the effort).

The basis for this strange, and virtually unique, situation is to be found in the large amount of unused productive capacity in the U.S. even in our most productive years. In the second quarter of 1962, our productive system was running at a very high level of prosperity, yet it was functioning about 12% below capacity, which represented a loss

of $73 billion annually. In this way, in the whole period from the beginning of 1953 to the middle of 1962, our productive system operated at $387 billion below capacity. Thus if the system had operated near capacity, our defence effort over the nine years would have cost us nothing, in terms of loss of goods or capacity.

This unique character in the American economy rests on the fact that the utilization of resources follows flow lines in the economy that are not everywhere reflected by corresponding flow lines of claims on wealth (that is, money). In general, in our economy the lines of flow of claims on wealth are such that they provide a very large volume of savings and a rather large volume of investment, even when no one really wants new productive capacity; they also provide an inadequate flow of consumer purchasing power, in terms of flows, or potential flows, of consumer goods; but they provide very limited, sharply scrutinized and often misdirected flows of funds for the use of resources to fulfill the needs of the government sector of our trisectored economy. As a result, we have our economy distorted resource-utilization patterns, with overinvestment in many areas, overstuffed consumers in one place and impoverished consumers in another place, a drastic undersupply of social services, and widespread social needs for which public funds are lacking.

In the Soviet Union, money flows follow fairly well the flows of real goods and resources, but, as as result, pressures are directly on resources. These pressures mean that saving and investment conflict directly with consumption and government services (including defence), putting the government under severe direct strains, as the demands for higher standards of living cannot be satisfied except by curtailing investment, defence, space, or other government expenditures.

Page 1216

Many countries of the world are worse off the Soviet Union because their efforts to increase consumers' goods may well require investment based on savings that must be accumulated at the expense of consumption.

As a chief consequence of these conditions, the contrast between the "have" nations and the "have-not" nations will become even wider. This would be of little great importance to the rest of the world were it not that the peoples of the backward areas, riding the "crisis of rising expectations" are increasingly unwilling to be ground down in poverty as their predecessors were. At the same time, the Superpower stalemate increases the abilities of these nations to be neutral, to exercise influence out of all relationship to their actual powers, and to act, sometimes, in an irresponsible fashion.

These neutrals and other peoples of backward areas have acute problems. Solutions do exist but the underdeveloped nations are unlikely to find them.

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A growing lowest social class of the social outcasts (the Lumpenproletariat) has reappeared. This group of rejects from the bourgeois industrial society provide one of our most intractable future problems because they are gathered in urban slums, have political influence, and are socially dangerous.

In the U.S. where these people congregate in the largest cities and are often Negroes or Latin Americans, they are regarded as a racial or economic problem, but they are really an educational and social problem for which economic or racial solutions would help little. This group is most numerous in the more advanced industrial areas and now forms more than 20% of the American population. Since they are a self-perpetuating group and have many children, they are increasing in numbers faster than the rest of the population.

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The pattern of outlook on which the tradition of the West is based has six parts:
1) There is truth, a reality (thus the West rejects skepticism, solipsism and nihilism)
2) No person, group, or organization has the whole picture of the truth (thus there is no absolute or final authority.)
3) Every person of goodwill has some aspect of the truth, some vision of it from the angle of his own experience.
4) Through discussion, the aspects of the truth held by many can be pooled and arranged to form a consensus closer to the truth than any of the sources that contributed to it.
5) This consensus is a temporary approximation of the truth which new experiences make it necessary to reformulate.
6) Thus Western man's picture of the truth advances closer and closer to the whole truth without ever reaching it.

This methodology of the West is basic to the success, power and wealth of Western Civilization.

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To the West, in spite of all its aberrations, the greatest sin from Lucifer to Hitler, has been pride, especially in the form of intellectual arrogance, and the greatest virtue has been humility, especially in the intellectual form which concedes that opinions are always subject to modification by new experiences, new evidence, and the opinions of our fellow men.

The most triumphant of these aspects is science, whose method is a perfect example of the Western tradition. The scientist goes eagerly to work each day because he has the humility to know that he does not have any final answers and must work to modify and improve the answers he has. He publishes his opinions and research reports or exposes these in scientific gatherings so that they may be subjected to the criticism of his colleagues and thus gradually play a role in formulating the constantly unfolding consensus that is science. That is what science is, "a consensus unfolding in time by a cooperative effort in which each works diligently seeking the truth and submits his work to the discussion and critique of his fellows to make a new, slightly improved, temporary consensus."

THE UNITED STATES AND THE MIDDLE-CLASS CRISIS

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American society in the 1920s was largely middle-class. Its values and aspirations were middle-class and power or influence within it was in the hands of middle-class people.

Most defenders of bourgeois America saw the country in middle-class terms and looked forward to a not remote future in which everyone would be middle-class except for a small shiftless minority of no importance. America was regarded as a ladder of opportunity. Wealth, power, prestige and respect were all obtained by the same standard, based on money. This in turn was based on a pervasive emotional insecurity that sought relief in the ownership and control of material possessions.

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Years ago in Europe, the risks (and rewards) of commercial enterprise, well reflected in the fluctuating fortunes of figures such as Antonio in The Merchant of Venice were extreme. A single venture could ruin a merchant or make him rich. This insecurity was increased by the fact that the prevalent religion of the day disapproved of what he was doing, seeking profits or taking interest, and he could see no way of providing religious services to the town dwellers because of the intimate association of the ecclesiastical system with the existing arrangement of rural landholding.

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Credit became more important than intrinsic personal qualities,

and credit was based on the appearance of things, especially the appearances of the external material accessories of life. Old values such as future preference or self-discipline, remained, but were redirected. Future preference ceased to be transcendental in its aim and became secularized.

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Middle-class self-discipline and future preference provided the savings and investment without which any innovation - no matter how appealing in theory - would be set aside and neglected.

The middle-class character is psychic insecurity founded on lack of secure social status. The cure for such insecurity became insatiable material acquisition. From this flowed attributes of future preference, self-discipline, social conformity, infinitely expandable material demand, and a general emphasis on externalized impersonal values. The urge to seek truth or to help others are not really compatible with the middle-class values.

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One of the chief changes, fundamental to the survival of the middle-class outlook, was a change in society's basic conception of human nature. This had two parts to it. The traditional Christian attitude was that human nature was essentially good and that it was formed and modified by social pressures and training. The "goodness" of human nature was based on the belief that it was a kind of weaker copy of God's nature. In this Western point of view, evil and sin were negative qualities; they arose from an absence of good, not from the presence of evil. Thus sin was the failure to do the right thing, not doing the wrong thing.

Opposed to this view was another which received its most explicit formulation by the Persian Zoroaster in the seventh century B.C. It came in through the Persian influence on the Hebrews, especially during the Babylonian Captivity of the Jews, in the sixth century and more fully through the Greek rationalist tradition from Pythagoras to Plato. The general distinction of this point of view from Zoroaster to William Golding (in Lord of the Flies) is that the world and the flesh are positive evils and that man, in at least this physical part of his nature, is essentially evil. As a consequence, he must be disciplined totally to prevent him from destroying himself and the world. In this view, the devil is a force, or being, of positive malevolence and man, by himself, is incapable of good and is, accordingly, not free. He can be saved in eternity by God's grace alone and he can get through this temporal world only by being subjected to a regime of total despotism.

The contrasts can be summed up thus:

Orthodox;
Puritan.

Evil is an absence of Good;
Evil is a positive entity.

Man is basically good;
Man is basically evil.

Man is free;
Man is a slave of his nature.

Man can contribute to his salvation by good works;
Man can be saved only by God.

Self-discipline is necessary to guide or direct;
Discipline must be external and total.

Truth found from experience and revelation interpreted by tradition;
Truth is found by rational deduction from revelation.

Luther, Calvin, Thomas Hobbes, Blaise Pascal and others believed that truth was to be found in rational deduction from a few basic revealed truths in sharp contrast with the orthodox point of view still represented by the Anglican and Roman churches which saw men as

largely free in a universe whose rules were to be found by tradition and consensus.

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The Puritan point of view led directly to mercantilism which regarded political-economic life as a struggle to the death in a world where there not sufficient wealth or space for different groups. To them, wealth was limited to a fixed amount and one man's gain was someone else's loss. That meant that the basic struggles of this world were irreconcilable and must be fought to a finish. This as part of the Puritan belief that nature was evil and that a state of nature was a jungle of violent conflicts.

One large change was the Community of Interests which rejected mercantilism's insistence on limited wealth and the basic incompatibility of interests for the more optimistic belief that all parties could somehow adjust their interests within a community in which all would benefit mutually.

Above all, the middle-class which dominated the country in the first half of the 20th century were a small group of aristocrats. Below were the petty bourgeoisie who had middle-class aspirations. Below these two were two lower classes: the workers and the Lumpenproletariat.

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In America, as elsewhere, aristocracy represents money and position grown old, and is organized in terms of families rather than of individuals. Traditionally it was made up of those families who had money, position,and social prestige for so long that they never had to think about these and,above all, never had to impress any other person with the fact that they had them. They accepted these attributes of family membership as a right and an obligation. Since they had no idea that these could be lost, they were self-assured, natural but distant. Their manners were gracious but impersonal. Their chief characteristic was the assumption that their family position had obligations. This "noblesse oblige" led them to participate in school sports (even if they lacked obvious talent) to serve their university (usually a family tradition) in any helpful way, and to offer their services to their local community, their state, and their country as an obligation.

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Another good evidence of class may be seen in the treatment given to servants who work in one's home: the lower classes treat these as equals, the middle-classes treat them as inferiors, while the aristocrats treat them as equals or even superiors. On the whole, the number of aristocratic families in the U.S. is very few, with a couple in each of the older states. A somewhat larger group of semi-aristocrats consists of those like the Lodges, Rockefellers, or Kennedys,who are not yet completely aristocratic either because they are not, in generations, far enough removed from money-making, or because of the persistence of a commercial or business tradition in the family.

The second most numerous group in the U.S. is the petty bourgeoisie, including millions of persons who regard themselves as middle-class and are under all the middle-class anxieties and pressures but often earn less money than unionized laborers. As a result of these things, they are often very insecure, envious, filled with hatreds, and are generally the chief recruits for any Radical Right, Fascist, or hate campaigns against any group that is different or which refuses to conform to middle-class values. Made up of clerks, shopkeepers, and vast numbers of office workers in business, government, finance and education, these tend to regard their white collar status as the chief value in life, and live in an atmosphere of envy, pettiness, insecurity, and frustration. They form the major

portion of the Republican Party's supporters in the towns of America, as they did for the Nazis in Germany thirty years ago.
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Eisenhower himself was repelled by the Radical Right whose impetus had been a chief element in his election although the lower-middle-class had preferred Senator Taft as their leader. Eisenhower however had been preferred by the Eastern Establishment of old Wall Street, Ivy League, semi-aristocratic Anglophiles whose real strength rested in their control of eastern financial endowments operating from foundations, academic halls, and other tax-exempt refuges.

As we have said, this Eastern Establishment was really above parties. They had been the dominant element in both parties since 1900 and practiced the political techniques of J.P. Morgan.
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They were, as we have said, Anglophile, cosmopolitan, Ivy League, internationalist, astonishingly liberal, patrons of the arts, and relatively humanitarian. All these things made them anathema to the lower-middle-class and petty-bourgeois groups who supplied the votes in Republican electoral victories but found it so difficult to control nominations (especially in presidential elections) because the big money necessary for nominating in a Republican convention was allied to Wall Street and to the Eastern Establishment. The ability of the latter to nominate Eisenhower over Taft in 1952 was a bitter pill to the radical bourgeoisie.

Kennedy was an Establishment figure. His introduction to the Establishment arose from his support in Britain. His acceptance into the English Establishment opened its American branch as well. Another indication of this connection was the large number of Oxford-trained men appointed to office by President Kennedy.
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In the minds of the ill-informed, the political struggle in the U.S. has always been viewed as a struggle between Republicans and Democrats at the ballot box in November. Wall Street long ago had seen that the real struggle was in the nominating conventions. This realization was forced upon the petty-bourgeois supporters of Republican candidates by their inability to nominate their congressional favorites. Just as they reached this conclusion, the new wealth appeared in the political picture, sharing petty-bourgeois suspicions of the East, big cities, Ivy League universities, foreigners, intellectuals, workers and aristocrats. By the 1964 election, the major political issue in the country was the financial struggle behind the scenes between the old wealth, civilized and cultured in foundations, and the new wealth, virile and uninformed, arising from the flowing profits of government-dependent corporations in the West and Southwest.

At issue here was the whole future face of America, for the older wealth stood for values and aims close to the Western traditions of diversity, tolerance, human rights and values, freedom, and the rest of it, while the newer wealth stood for the narrow and fear-racked aims of petty-bourgeois insecurity and egocentricity. The nominal issues between them, such as that between internationalism and unilateral isolationism (which its supporters preferred to rename "nationalism") were less fundamental than they seemed, for the real issue was the control of the Federal government's tremendous power to influence the future of America by spending of government funds. The petty bourgeois and new wealth groups wanted to continue that spending into the industrial-military complex, such as defence and space, while the older wealth and non-bourgeois groups wanted to direct it toward social diversity and social amelioration for the aged and the young, for education, for social outcasts, and for protecting national

resources for future use.
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The outcome of this struggle, which still goes on, is one in which civilized people can afford to be optimistic. For the newer wealth is unbelievably ignorant and misinformed.
The National parties and their presidential candidates, with the Eastern Establishment assiduously fostering the process behind the scenes, moved closer together and nearly met in the center with almost identical candidates and platforms although the process was concealed, as much as possible, by the revival of obsolescent or meaningless war cries and slogans.
Page 1248
The two parties should be almost identical so that the American people can "throw the rascals out" at any election without leading to any profound or extensive shifts in policy. The policies that are vital and necessary for America are no longer subjects of significant disagreement, but are disputable only in details of procedure, priority, or method: we must remain strong, continue to function as a great World power in cooperation with other Powers, avoid high-level war, keep the economy moving, help other countries do the same, provide the basic social necessities for all our citizens, open up opportunities for social shifts for those willing to work to achieve them, and defend the basic Western outlook of diversity, pluralism, cooperation,and the rest of it, as already described.
Either party in office becomes in time corrupt, tired, unenterprising and vigorless. Then it should be possible to replace it every four years by the other party which will be none of these things but will still pursue, with new vigor, approximately the same basic policies.
The capture of the Republican National Party by the extremist elements of the Republican National Party in 1964 and their effort to elect Barry Goldwater with the petty-bourgeois extremists alone, was only a temporary aberration on the American political scene and arose from the fact that President Johnson had pre-empted all the issues so that it was hardly worthwhile for the Republicans to run a real contestant against him. Thus Goldwater was able to take control of the party by default.
The virulence behind the Goldwater campaign, however, had nothing to do with default or lack of intensity. Quite the contrary. His most ardent supporters were of the extremist petty-bourgeois mentality driven to near hysteria by the disintegration of the middle-class and the steady rise to prominence of everything they considered anathema: Catholics, Negroes, immigrants, intellectuals, aristocrats, scientists, and educated men generally, cosmopolitans and internationalists and, above all, liberals who accept diversity ad a virtue.
This disintegration of the middle classes had a variety of causes, some of them intrinsic, many of them accidental, a few of them obvious, but many of them going deeply into the very depths of social existence. All these causes acted to destroy the middle-class by acting to destroy the middle-class outlook.
Page 1250
In the earlier period, even down to 1940, literature's attack on the middle-class outlook was direct and brutal, from such works as Upton Sinclair's "The Jungle" or Frank Norris's "The Pit," both dealing with the total corruption of of personal integrity in the meatpacking and wheat markets. These early assaults were aimed at the commercialization of life under bourgeois influence and were fundamentally reformist in outlook because they assumed that the evils of the system could somehow be removed. By the 1920s, the attack was much more total and saw the problem in moral terms so fundamental that

no remedial action was possible. Only complete rejection of middle-class values could remove the corruption of human life seen by Sinclair Lewis in Babbitt or Main Street.

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The Puritan point of view of man as a creature of total depravity without hope of redemption which in the period 1550-1650 justified despotism in a Puritan context, now may be used, with petty-bourgeois support, to justify a new despotism to preserve, by force instead of conviction, petty-bourgeois values in a system of compulsory conformity. George Orwell's 1984 has given us the picture of this system as Hitler's Germany showed us its practical operation. Barry Goldwater's defeat moved the possibility so far into the future that the steady change in social conditions makes it remote indeed.

Page 1253

For generations, even in fairly rich families, the indoctrination continued because of emphasis on thrift and restraints on consumption. By 1937, the world depression showed that the basic economic problems were not saving and investment but distribution and consumption. Thus there appeared a growing readiness to consume, spurred on my new sales techniques, installment selling and the extension of credit from the productive side to the consumption side of the economic process. As a result, an entirely new phenomenon appeared in middle-class families, the practice of living up to, or even beyond, their incomes - an unthinkable scandal in any 19th century bourgeois family.

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Middle-class marriages were usually based on middle-class values of economic security and material status rather than on love. More accurately, middle-class marriages were based on these material considerations in fact, while everyone concerned pretended that they were based on Romantic love. Even when the marriage becomes a success, in the sense that it persists, it is never total and merely means that the marriage becomes an enslaving relationship to the husbands and a source of disappointment and frustration to the wives.

EUROPEAN AMBIGUITIES

Page 1300

In the old days, the merchant bankers of London controlled fairly well the funds that were needed for almost any enterprise to become a substantial success. Today, much larger funds are available from many diverse sources, from abroad, from government sources, from insurance and pension funds, from profits from other enterprises. These are no longer held under closely associated controls and are much more impersonal and professional in their disposal so that on the whole, an energetic man (or a group with a good idea) can get access to larger funds today, and can do so without anyone much caring if he accepts the established social precedents.

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Lycurgus renounced social change in prehistoric Sparta only by militarizing the society.

CONCLUSION

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Tragedy and Hope? The tragedy of the period covered by this book is obvious but the hope may seem dubious to many. Only the passage of time will show if the hope I seem to see in the future is actually there or is the result of mis-observation and self-deception.

The historian has difficulty distinguishing the features of the present and generally prefers to restrict his studies to the past,where the evidence is more freely available and where perspective helps him to interpret the evidence. Thus the historian speaks with decreasing assurance about the nature and significance of events as they approach his own day. The time covered by this book seems to this

historian to fall into three periods: the 19th century from 1814 to 1895; the 20th century after World War II, and a long period of transition from 1895 to 1950.

The 20th century is utterly different from the 19th century and the age of transition between the two was one of the most awful periods in all human history. Two terrible wars sandwiching a world economic depression revealed man's real inability to control his life by nineteenth century techniques of laissez-faire, materialism, competition, selfishness, nationalism, violence, and imperialism. These characteristics of late nineteenth-century life culminated in World War II in which more than 50 million persons were killed, most of them by horrible deaths.

The hope of the twentieth century rests on the recognition that war and depression are man-made, and needless. They can be avoided in the future by turning from the 19th century characteristics just mentioned and going back to other characteristics that our Western society has always regarded as virtues: generosity, compassion, cooperation, rationality, and foresight, and finding an increased role in human life for love, spirituality, charity, and self-discipline.

On the whole, we do know now that we can avoid continuing the horrors of 1914-1945 and on that basis alone we maybe optimistic over our ability to go back to the tradition of our Western society and to resume its development along its old patterns of Inclusive Diversity.

Electronic edition by John Turmel
http://www.cyberclass.net/turmel/quig00.htm